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ABSTRACT

This 1976 Senate Hearing before the Appropriations Committee is concerned with student loans. Issues discussed are: (1) student loan programs; (2) educational loans to middle-income families; (3) default rate on bank loans; (4) HELP grant loan; (5) views of the Financial Aid Officers Panel; (6) proprietary career schools; (7) consumer protection; (8) views of the Department of Health, Education, and Welfare; (9) views of the Massachusetts Student Lobby; (10) views of the Student Loan Commission; (11) views of the Massachusetts Higher Education Assistance Corporation; (12) financial aid; and (13) views of members of the Banking field. (Author/KE)

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Senate Hearing

Before the Committee on Appropriations

ED123976

Student Loan Programs

Fiscal Year 1976

94*th* CONGRESS, FIRST SESSION

HE 007 778

SPECIAL HEARING

U.S. DEPARTMENT OF HEALTH
EDUCATION & WELFARE
NATIONAL INSTITUTE OF
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STUDENT LOAN PROGRAMS

HEARING

BEFORE A

SUBCOMMITTEE OF THE
COMMITTEE ON APPROPRIATIONS
UNITED STATES SENATE

NINETY-FOURTH CONGRESS

FIRST SESSION

Printed for the use of the Committee on Appropriations

SPECIAL HEARING

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CONTENTS

	Page
Hon. Edward W. Brooke U.S. Senator from Massachusetts, opening statement	1
Dr. John R. Silber, president, Boston University, statement	3
Philip D. Epstein, Marblehead, Mass., statement	15
Robert J. Spiller, president, Boston Five Cents Savings Bank, Boston, Mass., statement	17
Howard T. Nason, senior vice president, director of marketing, Boston Five Cents Savings Bank, statement	17
Letter from	23
Ronald Friedman, student, Boston College, statement	26
Financial Aid Officers Panel:	
R. Jerrold Gibson, Harvard University, statement	31
Prepared statement	31
Susan Horowitz, Northern Essex Community College, Haverhill, Mass., statement	33
Prepared statement	34
Gerald Coutinho, director, student financial aid, Southeastern Massachusetts University, North Dartmouth, Mass., statement	35
Prepared statement	36
Samuel J. Jones, associate director, student financial aid, Massachusetts Institute of Technology, statement	41
Frank H. Delaney, Jr., director, financial aid, College of the Holy Cross, statement	45
Prepared statement	46
Grant Curtis, director, financial aid, Tufts University, Medford, Mass., statement	45
Prepared statement	46
Dr. Rachel K. Winer, Coordinator, Office of Private Schools, Division of Occupational Education, Department of Education, Commonwealth of Massachusetts, statement	58
Prepared statement	59
Paula Gold, Esq., chief, Consumer Protection Division, Office of the Attorney General, Commonwealth of Massachusetts, statement	67
Staff Panel, Region 1, Department of Health, Education, and Welfare:	
William T. Logan, Jr., regional commissioner, Region 1, statement	71
Thomas O'Hare, assistant regional commissioner, Division of Guaranteed Student Loan Programs, statement	71
Charles Bechtold, senior program officer, Division of Postsecondary Education, Financial Aid Programs, statement	71
Massachusetts Higher Education Assistance Corporation, letter from	80
List of participating members in HELP program	81
Massachusetts Higher Education Assistance Corporation, letter from	96
John Shortsleeve, director, Massachusetts Student Lobby, statement	99
Kathy Cafarella, student, Regis College, Weston, Massachusetts, statement	100
Thomas Doherty, Student Loan Commission, Harvard Law School, statement	102
Joseph F. Cosgrove, treasurer, Massachusetts Higher Education Assistance Corp., statement	108
Helge Holst, president, Massachusetts Higher Education Assistance Corp., statement	108
Graham R. Taylor, vice chancellor, student affairs, Massachusetts Board of Higher Education, statement	117

	Page
Lana W. Brennen, director of financial aid, University of Massachusetts at Boston, statement	125
Madelyn Miller, financial aid officer, Boston College, Boston, Mass., statement	125
Hon. Edward W. Brooke, U.S. Senator from Massachusetts, concluding remarks	131
Judith Allen, director of financial aid, Regis College, Weston, Mass., statement	132
Lynn E. Santner, financial aid officer, University of Massachusetts, Amherst, Mass., statement	132
Mary Falvey, assistant vice president, Springfield Institution for Savings, Springfield, Mass., statement	141
Leonard O'Conner, manager, consumer finance, First National Bank of Boston, statement	141
Helge Holst, president, Massachusetts Higher Education Assistance Corp., letter	152
Joseph F. Cosgrove, treasurer, Massachusetts Higher Education Assistance Corp., letter	152
Francis H. Delaney, Jr., president, Massachusetts Association of Student Financial Aid Administration, letter	154

DEPARTMENTS OF LABOR AND HEALTH, EDUCATION, AND WELFARE AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1976

FRIDAY, OCTOBER 17, 1975

U.S. SENATE,
SUBCOMMITTEE ON DEPARTMENTS OF LABOR AND HEALTH, EDUCATION, AND WELFARE AND RELATED AGENCIES,
John F. Kennedy Federal Building,
Boston, Mass.

The subcommittee met at 9 a.m. in conference room 2003, John F. Kennedy Building, Boston, Mass., Hon. Edward W. Brooke presiding.

Present: Senator Edward W. Brooke; Harley M. Dirks, professional staff member; Domenic R. Ruscio, professional staff member; and Gar Kaganowich, minority professional staff member.

STUDENT LOAN PROGRAMS

NONDEPARTMENTAL WITNESSES

INTRODUCTION OF SUBCOMMITTEE STAFF

Senator BROOKE. The meeting of the Subcommittee on Labor and HEW of the Senate Appropriations Committee will come to order. I would first like to introduce the members of the appropriations staff here in Boston with me today. On my right is Harley M. Dirks, who is the senior staff member of the appropriations subcommittee. On my left, Mr. Gar Kaganowich, who is the minority professional staff member, and to my rear, Mr. Domenic Ruscio, who is assistant to Mr. Dirks and works very closely with the education part of our bill.

I am going to be very brief this morning and I am going to ask all of the witnesses to be brief, because we have rather lengthy subject matter to be considered. There are many witnesses and I will ask you to keep your statements short. If they are longer statements you may place them in the record. Try to give us a synopsis of your statement, if you will, so that there will be ample time for questions.

OPENING STATEMENT OF SENATOR BROOKE

I want to take this opportunity to express my appreciation to all of you here today for what you are doing in your respective fields. I can imagine no greater work than to be involved in helping young people with financial arrangements in their acquisition of knowledge. I think we all agree that the future of this Nation rests in large part on our

young people's access to education. I also believe that the number of schools in the Commonwealth indicates the preeminence which the people here have given to educating our young.

STUDENT LOAN PROGRAMS

We are here to look at one of the cornerstones of the college financial aid package—the student loan programs.

As some of you may know, I am ranking minority member of the Senate subcommittee which appropriates the funds for nearly all education programs, including student loans. But frankly, we are not here to sit back and rehash the past.

Many believe these loan programs were born out of complacency. The direct student loan program followed closely on the heels of the Russians' launching of Sputnik. This event was perceived as a threat to the defense of our country. In the American tradition, we responded with a program designed to stimulate and strengthen our educational system. Nearly a decade later, the guaranteed student loan program was established. Like so many other programs, it was founded on the principle that opportunity for education should be available to all—not just those who can pay.

Again, both programs were developed some time ago, and unfortunately, we have run into problems. For example, many of us have been shocked at the alarming growth in loan defaults nationwide. The General Accounting Office indicates that one out of every four loans are defaulted. This is costing the taxpayer more than $200 million this year just to pay for default claims. This sort of problem reflects on all of us; on the students who, because of the poor job market here, cannot get work to pay off their loans; on the parents whose children start out their lives as credit risks; and on those of us in Congress who really want to continue helping students get an education, especially during this time of spiraling education costs.

UNPROCESSED DEFAULT CLAIMS

At the same time, we hear that, of the $7 billion guaranteed loans made thus far, $5 billion are still outstanding. Our sources tell us there are literally crates of unprocessed default claims stored in HEW. We hear of some proprietary schools that appear to be in the business of enrolling students, whether qualified or not, just to get their loan paper and turn a profit. These schools share 39 percent of the loan volume, yet they account for nearly 60 percent of the default claims. Another problem, which we will get into today, is the difficulty that many who qualify are having in actually getting loans. All of this comes at a time when we have very scarce Federal resources and are fighting to keep these programs at adequate levels of funding.

PROBLEM-SOLVING OF LOAN PROGRAMS

We, in the Congress, hope to resolve these problems, with your help, within the framework of existing programs. We are bound to grope for a time as we wrestle with these problems, but wisdom is the child of experience. Thus, I will listen to you today—and I will listen

very carefully—and ask questions. And I hope together we can gain the wisdom to iron out some of the confusion and problems.

Senator Warren G. Magnuson of the State of Washington, my good friend and the chairman of this subcommittee, could not be here with us today, but I know he shares my concern that we begin now to turn these problems around and avoid a worsening situation. All Members of the Senate committee, on a nonpartisan basis, are determined to make these loan programs work better.

I am reminded what the great French Marshal Lyautey once said to his gardener. "Plant a tree tomorrow." And his gardener said, "But it won't bear fruit for a hundred years." "In that that case," Lyautey said, "Plant it this afternoon."

The admonition is clear: We must act promptly to correct the deficiencies that presently exist in Federal student loans. Today's hearing is part of the necessary process.

Our leadoff witness is John R. Silber, the distinguished president of Boston University and a dear friend. I am very grateful that he has come to testify for us. As an alumnus and a trustee of Boston University, I am particularly pleased to welcome Dr. Silber, who heads one of the largest universities in the Nation, with more than 24,000 students in full or part-time status.

Dr. Silber, we are pleased to have you and you may proceed with your statement.

GUARANTEED LOAN PROGRAM

STATEMENT OF DR. JOHN R. SILBER, PRESIDENT, BOSTON UNIVERSITY

HIGHER EDUCATION

Dr. SILBER. Senator Brooke and members of the committee staff, I want to express my appreciation for the opportunity of talking with you this morning, and beyond that, I am sure I speak for all of higher education in Massachusetts in applauding the committee's decision to hold this field hearing in Boston. In no State does higher education occupy a more central role—economic no less than educational—than in Massachusetts, where the health of higher education is essential to a State whose economy is already in shambles.

It is especially important for the Appropriations Committee to look into the guaranteed loan programs, because this issue involves social policy in that it affects the future lives of thousands of young Americans. It is too important a question to be discussed merely in the context of higher education.

DUAL SECTOR SYSTEM

The reasons for the increase in loans and their role in financing higher education must be understood in context. Public higher education in this country is a single system with two sectors, the State-supported sector and the independent sector. Both sectors embody key aspects of the public interest. If both are to survive and to fulfill the public interest, we must identify and promote certain essential priorities.

EQUAL OPPORTUNITY PRIORITY

Our first priority should be to give meaning to the concept of equal opportunity. This depends upon removing barriers to access. Remarkable progress has already been made in removing some of these barriers: those of race, religion, and sex. But there are others that must be removed. Access to higher education involves two additional requirements: that places in higher education be available and that they be available at prices students can afford. The need for places has long been recognized, and both sectors of higher education have greatly expanded since 1945. In fact, the provision of places has been pushed to the point of overcapacity.

Efforts to remove the barrier of price have not gone far enough and have not developed with an even-handed concern for the entire system of public higher education. In the State sector, the price barrier has been removed for most students through the large operating and capital subsidies that reduce the price of education in State institutions far below cost. And through important student aid legislation, Congress has acted to subsidize some of our neediest students. Most State subsidies, however, yield an artificially lowered price for all students, poor and rich. While in all States, tuition is lowered for the rich along with the poor, in many States, the State tuition is still too high to be within the means of the poorest students.

INDEPENDENT SECTOR

Nationally, the price in the independent sector is about four times that of the State sector. In some States, however, it may be as much as eight times. This unequal subsidization of the prices in the two sectors has created a tuition gap—that is, a price gap—between independent and State institutions. This tuition gap has intensified with predictable results: as the price rises in the independent sector, more and more students transfer from it to the State sector. These students fuel new expansion, redundant expansion, in the State sector, transferring more of the total social cost of higher education from the student and the family and the private philanthropy to the backs of the taxpayer—and waste comes along with it.

STATE SECTOR

This transfer and the expansion in the State sector it drives is especially wasteful because, by 1978, we shall begin to have fewer rather than more students to educate. Overexpansion is already beginning to produce academic ghost towns. And by 1985, when the effect of the sharp decline in the number of live births since 1960 is felt, there will be many ghost towns. Some of them will be State-owned.

The barrier of place has been overcome, and the barrier of price has been overcome for most students who enroll in State institutions. When access to higher education is restricted to the State sector, however, a perhaps unnoticed implication is that the choice of students is severely limited. The State sector has specialized largely in one type of institution: the large, complex, highly impersonal university. Size has been the hallmark of the State sector, and State institutions are on

the average 3½ times larger than institutions in the independent sector. The State sector, for whatever reason, has been unable to operate the small colleges and clusters of colleges that form the backbone of the independent sector.

No one doubts that Congress, in legislating the various elements of the existing financial aid structure, intended to increase access without restricting choice. But existing legislation, by inadvertently discriminating against the independent sector, is beginnng to diminish freedom of choice, a process that will be sharply accelerated if proposals to remove the one-half cost limitation on the basic educational opportunity grant are enacted.

This problem can be illustrated in both State institutions and independent institutions. In my written testimony, I have detailed on page 5, two examples of such cost results. I won't take your time to read those details here.

INDEPENDENT U.S. STATE COLLEGE FINANCIAL NEEDS

The important point is that over a 4-year period, while a student in a State institution need not incur any financial debt in order to receive an education, in an independent institution over 4 years the total in debt incurred by a student with financial need could run to nearly $7,000. This is the cost to such a student of exercising the choice to attend an independent university rather than a State college. If the one-half cost limitation is repealed, making it in effect actually profitable to attend many State colleges, the difference between the cost of attending a State school and an independent school will become $8,400 over a 4-year period. That is, even for a student who uses all methods of public financial needs and who has the maximum needs to present. This gap of $8,400 makes a mockery of equality of choice. It insures the continuing and financially disastrous transfer of students from the independent to the State sector—disastrous in the demise of numbers of independent colleges and universities that contribute to the educational and economic well-being of the United States, and disastrous also because the State must replace these institutions at the taxpayer's expense.

Loan programs make excellent sense for funding education in the professions that have high earning capacity. Professions of medicine, law, some graduate studies. There is no reason why a surgeon should not go into debt for his education and repay that debt out of his vastly increased earning capacity. A physician's license is at least the equivalent in value of a taxicab medallion, and a society that expects cabbies to pay upward of $35,000 for access to their trade should have no hestitation in expecting a similar investment from surgeons. Despite the high cost of taxi medallions, there is no shortage of taxi drivers. There is no reason to believe that the right to practice surgery is less compelling.

UNDERGRADUATE PROGRAM

But for undergraduate programs, which typically do not in themselves lead to very high incomes, the loan program is an increasingly unsatisfactory and socially disruptive mechanism. Undergraduate loan programs are failing, as is clear from the cumulative $385 million

default total. When we encourage full-need students—those with little or no family support—to contract debts totaling $7,000 or more over a 4-year undergraduate program, we encourage a practice that would be financially ill-advised even for middle-income families.

BANKRUPTCY OPTIONS

Congress, through existing loan programs, has already inadvertently pointed the way toward a new coming of age. It will be a rite of passage separating not boys and girls from men and women, but separating adolescent students from true adults. This rite will be a financial bar mitzvah in which young Americans will declare bankruptcy at about 25 years of age and thus be freed of all debts incurred in obtaining their education. This new rite of passage will undermine the concept of financial responsibility, which is very closely related to personal integrity. Some form of it may become morally acceptable if we continue the present emphasis upon loans as the basic form of educational assistance.

To be sure, not all Americans will opt for bankruptcy. But those who are so old-fashioned as to shun it may opt for a life of debt. Everyone who graduates from school with an interest-bearing debt of $7,000 faces marriage with a negative dowry. If he or she marries a spouse with a similar dowry, they will never be able to own a home of their own. Loan programs will increasingly send students who left poverty for college back into poverty, and will stand even some of the more affluent on its margins.

The rest of my testimony consists of recommendations and if the Senator and the committee are interested, I will be very happy to discuss it.

FULL FUNDING FOR BEOG

Senator BROOKE. Thank you, Dr. Silber for your very excellent statement. I think you appeared before the House Subcommittee on Education in July of this year and you said then, as you said in your statement this morning, that the loan programs are failing. Now, what alternatives do you suggest? You have given us your reasons as to why you think the loan programs are failing. What alternatives do you suggest, other than BEOG? I know you are a strong believer in BEOG.

Dr. SILBER. I think that BEOG should be fully funded up to a $1,600 total with the half-time cost of education restriction left in. I also think the work-study program should be funded up to $500 million, an increase above that $360 million present level. But most important, I think, in addition to increasing BEOG, is to establish a tuition equalization plan, or if you want to follow the BEOG-SEOG terminology, a tuition equalization opportunity grant. This would be a grant of from $200 to $1,500 based on financial need, to students who elect to attend independent colleges and universities. It would be based on a graduated need formula that would insure that the average grant was approximately $1,000. Now, there are 2.2 million students in the independent sector in the United States at the present time, so the cost of funding a tuition equalization grant program would be approximately $2 billion. This expenditure I think would be one of the most economical that the Congress could make, because

it would insure the vitality of the independent sector of public higher education, and that sector contributes well over $6 billion each year in education to American citizens and its capital assets, of course, approach $20 to $30 billion. So if the States and the taxpayer had to duplicate this resource on their own, or even a major part of it, the cost would be fantastically more burdensome than the cost of equalization grants, tuition equalization grants, that would cost roughly 30 cents on the dollar's worth of education received.

The thing that bothers me most about the loan program is I think that we see a situation there quite comparable to what is happening in New York City. There is a gradual momentum, a snowballing effect is building up. As the default rate rises, the loans are going to be more suspect, and each year independent colleges and universities are becoming increasingly dependent upon loan funds. If loan funds are to be terminated, they have got to be phased out, because if right now Boston University suddenly had no access to loan funds we would face an annual deficit immediately of $3 million a year. That is the level already of our dependency. The loan program is an addictive program. We are $3 million dependent on it at the present time, but if we don't get off this addiction we are going to find ourselves $5, or $6, or $7 million a year dependent on it, and one of these days it will collapse just as surely as New York City bonds, and at that point there will be a financial collapse of a large number of independent colleges and universities.

ADVANTAGES OF BEOG

Senator BROOKE. Wouldn't you be addicted to BEOG as well?

Dr. SILBER. Well, BEOG is a different thing. It does not have the seeds of its own destruction built into it. BEOG leaves the student better educated and without debt in order to continue his education.

Senator BROOKE. But from the institution's point of view?

Dr. SILBER. I don't think that the institution is afraid of the loan program being discontinued by a capricious Congress. I believe the Congress will perform in a very farsighted fashion, as it traditionally has. But the reason why we can anticipate a precipitous fall of the loan program is I think we are going to have this bankruptcy craze sweeping the country that will so thoroughly discredit it that you can't persuade banks to make these loans, and the Congress will be forced by public outrage to suddenly discontinue that program.

INCREASE IN BEOG PAYMENTS

Senator BROOKE. If you had discontinued the loan program and went to BEOG exclusively, could you make that grant high enough so that that student would be able to matriculate with the high cost of education being experienced today? Many of these students package it, as you very well know. They have a loan and a BEOG grant as well, in order to pay their tuition and matriculate at various institutions. How high do you think realistically we could make the BEOG's payment?

Dr. SILBER. I think if the BEOG payments went up to say $1,600, or if it went even up to $3,200 with the half cost-of-education limit, at that level I think that BEOG plus the tuition equalization grant

would be just about enough to carry students who were willing to work some on their own. I think you should certainly continue the work-study program. I don't think there is any reason why we should not expect the students to bring $1,000 a year to his educational costs. This is something that he can easily afford to do. That is about $85 a month in earnings and at the present minimum wage, that means that he could carry that much of a work program without interferring substantially with his educational program. That plus a $1,600 upper limit on BEOG would give him already $2,600. That is enough for most of the State schools to meet his way. Certainly it would be if you increased BEOG even up to say $3,100 and made it a half cost-of-education as its upper limit.

Senator BROOKE. The maximum for BEOG now is $1,400. You would raise it to $1,600. Is that correct?

Dr. SILBER. I would prefer raising it to $3,200 with the half limitation, and I believe that would cost about $1.8 billion, so about $1.2 billion above the present level. But I don't think that it would be sufficient without a tuition equalization grant.

Senator BROOKE. I am sure you are aware that the BEOG Program has gone begging. For example, over the last 2 years, there's been a $200 million surplus in the BEOG program.

Dr. SILBER. One of the reasons why sometimes there are no takers is because it costs the university so much to use it.

Senator BROOKE. That is what I was driving at. Why hasn't the university used it?

COSTS TO UNIVERSITY OF BEOG PROGRAM

Dr. SILBER. It costs the university somewhere between $1,000 and $2,000 to utilize the BEOG and SEOG programs, and so that means that although it is a great advantage to the student, it is not a financial advantage without financial offsets to the institution that uses it. It would be like a shoemaker who agrees to sell the shoes at something lower than the cost of making them, and you cannot enlarge that kind of practice very long before bankruptcy comes in. So we recognize our social responsibility to provide education for needy students and we set aside several million dollars of university funds to supplement the BEOG funds available to the Federal Government, and in the process it is certainly an advantage to the student but it comes at only a modified advantage to the institution. Ultimately we reach a point where there are no funds left in order to utilize those BEOG funds.

BOSTON UNIVERSITY STUDENTS RECEIVING BEOG

Senator BROOKE. What proportion of Boston University's students receive BEOG, and compare that with the totals?

Dr. SILBER. We have 585 students at Boston University who used BEOG this year. That is 585 out of 25,000—or 24,000.

Senator BROOKE. That is not very large.

Dr. SILBER. No, it is not.

Senator BROOKE. How do you account for it?

Dr. SILBER. Well, we use BEOG up to the limit that we are assigned, of our eligibility.

Senator BROOKE. How do you go about using it? How do you get the student interested—I understand some difficulty is encountered.

Dr. SILBER. Well, the student comes to the financial aid office with a set of problems and the financial aid officer meets with that student and tries to see what his eligibilities are. Some of the students are not eligible for BEOG because family income may be too high. I think that it would improve BEOG if there were a sliding scale of financial need rather than an absolute cutoff at a very low level for institutions. It seems to me that we now are able to do our best for a student who has no family resources whatsoever, but when it comes to say a family with two or three children and an income of $16,000 or $17,000 a year, there is very little we can do for them. If you have a family with a $20,000 a year income and four children, there is no way that they can afford to pay tuition at independent colleges and universities, but at the same time, they are beyond the reach of BEOG. So I think that the BEOG's qualification requirement could be changed. The need formula could be adjusted on a sliding scale, and if this were done, the BEOG program could be utilized at a much higher level.

But as a matter of fact, if there were a greater utilization of BEOG by other universities, there would be less BEOG money left for Boston University to use, so the success of the BEOG program would not be possible nationally unless the total allocation to BEOG is substantially increased.

BEOG PROGRAM PREFERRED OVER LOANS

Senator BROOKE. The House of Representatives has shown a reluctance to increase BEOG's funding. You probably know that. In fiscal 1976 we in the Senate increased it to $795 million. We had to cut it back to $75 million, if I remember, because of the reluctance of the House. I take it, then, that you feel that the direction in which we ought to go is with BEOG and not loans.

Dr. SILBER. I would say use anything before loans, but I would be selective about loans. There is no reason why loans shouldn't be used for people who are studying law, studying medicine, going into certain areas such as microbiology, with a Ph. D. There are certain levels of a Ph. D. that guarantee a sufficient remuneration to make a loan program sensible. Indeed, graduate programs of almost any sort have this characteristic. But for an undergraduate program, I would limit loan programs to middle class students. I think that if a student comes from a family whose annual income is under $20,000, it is a very risky proposition to put him in a loan situation. The idea of using loans for youngsters from the families of the poor is I just think pernicious, really destructive of the upgrading of their lives.

I think we also ought to consider what are going to be the effects on the housing industry. Let us suppose that the students don't take bankruptcy, and so one student graduates with a $7,000 loan and marries a girl with a $7,000 loan. Now they have a $14,000 loan. That is the mortgage on their house. They have got to pay this off before they can even think about raising the money for a down payment on the house.

Senator BROOKE. They have their education.

Dr. SILBER. They have their education, but I don't care how good your education is—when I had a Ph. D., I still had a hard time raising

the down payment for the first house I bought. And if I'd had to pay off $14,000 in debts beforehand, it would have been an 8- to 10-year period before we could have had anything.

UNUSED BEOG FUNDS

Senator BROOKE. Dr. Silber, I have several other questions.

First of all, why do you think HELP has reported more than $200 million of unused BEOG's money?

Dr. SILBER. The Congress, in order to insure that the amount appropriated under BEOG's is not overexpended, has designed a rationing system rather than a need analysis in order to determine eligibility. They don't ask the universities and colleges to identify students with a certain amount of financial need, but rather the Congress has come up with a family contribution formula that is so restrictive that many of the needier students are simply ineligible. It is a very complicated formula that they have developed, and it is a far more restrictive one than is used in determining financial ability to pay by the CSS. So the effect of the family contribution formula developed by Congress is to ration the expenditures under BEOG. It is not to define the financial need of the student. And they have miscalculated in the process of writing this family contribution formula and made it so restrictive that you simply cannot spend all of the BEOG money that is appropriated.

CONNOLLY-CARILLO ACT

In Texas we had the Connolly-Carillo Act. It is a student financial aid package, available to students provided the student agreed not to receive any other financial aid. Consequently we never succeeded in finding more than two or three students a year who would qualify. They had to be poor to qualify, and if they were poor enough to qualify, they were poor enough to need more financial aid than they could get from this one little loan program. If they took this loan program, they had to swear that they wouldn't take any other financial aid. So consequently they had a built-in mechanism for never using it. And then I remember legislators would get up on the floor and say we don't need more financial aid for students in Texas because they never used the Connolly-Carillo Act.

It is the same way with BEOG. A Congressman can get up and say we don't need more money in BEOG because the BEOG money has never been used. But the reason that BEOG money has never been used is because the Congress writes the family contribution restrictions in such a way that it so carefully rations the BEOG's money that it cannot be spent. And also the geographical distribution of BEOG is a somewhat faulty process. It is not as flexible, not as responsive as it might be.

I think what we really need to do on BEOG's is increase the limits and develop a graduated family need formula for its allocation, something along the lines of the way in which we have the college scholarship service analysis of family need and student need, and then I think we could use the additional money in BEOG very handily.

GEOGRAPHIC ALLOCATION

Senator BROOKE. Do you mean we are not giving due consideration to the number of institutions in a given geographic area, so that obviously they would be in need of a larger portion of the funds?

Dr. SILBER. Well, I think an effort is made to respond that way, but it is a very difficult and very complex matter to predict, and I think you need to have a kind of banking control system there that would be much more flexible, and when it finds one region or one institution that is going to fall behind, that it very quickly can notify other institutions and additional funds can be transferred to them. We need to have a clearing house mechanism to make the BEOG's money and all other student financial aid money flow more swiftly and surely. Work-study funds need the same kind of clearing house flexibility.

Senator BROOKE. So, in essence, we could have shifted that $200 million to other areas that did not have adequate funds?

Dr. SILBER. Well, I don't know. You see, it is so restrictive that any students who qualify for BEOG are so poor that the university, if it is an independent university, is going to have to put a lot of its own money into it, and so we reach our limit also. I think the major failure to fully utilize BEOG is that the family contribution formula is designed as a rationing system and not as a need analysis.

DIRECT LOAN PROGRAMS

Senator BROOKE. You know, in these times of scarce resources, the direct loan program has a very appealing advantage over BEOG in that it is a revolving program and loan repayments are used again to make new loans. If we were to limit the student loan programs to—as you have suggested—graduate students, primarily, that would require considerable increase in appropriations to grant programs, in which we have run into real problems.

Dr. SILBER. I think the Congress has to look at the way in which the money is spent to see what the fruitful outcome is. If Congress decided to add a one-to-five percent surtax to the income tax for students who had received financial aid in order to derive their college education—but it would be a tax that they did not have to pay unless they had income—I think there you would have a way of recovering some of the costs of education without destroying young people, without burdening them with a debt, and without encouraging the irresponsibility of bankruptcy.

So I think that there are alternative ways that the Congress could recover the investment it makes in its citizenry for higher education, in a way that would be constructive rather than destructive. I don't think that students and parents would have any serious objection to a recovery in that system. But I think the loan program is simply illusory. It is just as illusory as New York City believing that it can go perennially and continually into debt at higher and higher levels. We can't all become consumers. When you try to develop a system in which the people who consume substantially outnumber the people

who produce, you ultimately reach a point of collapse, and I think that the loan program is going to share these characteristics. With that mounting indebtedness, with that 59.2 or 5-percent default rate in proprietary schools, that is the time to put a stop to it. Where the independent schools have an 8.6-percent default rate, that probably is something to live with. In the State schools it is a 31.7-percent default rate. That is too high to make sense of, and I would suppose that once bankruptcy becomes fashionable to the proprietary schools and the State schools, and their students simply default on their loans through taking out bankruptcy, that then it is going to just become a national pattern, as inconsequential as a middle-class youngster going to jail for setting fire to the school building.

POSTPONEMENT OF REPAYMENT OBLIGATION

Senator BROOKE. What about giving a postponement?

Dr. SILBER. Well, I think it just postpones the inevitable. I think it is a way of kidding ourselves.

Senator BROOKE. It wouldn't be inevitable. If that student was able to get a job he or she would be better able to pay back the loan in 3, 4, 5 years.

Dr. SILBER. Well, let's just be sure that the opportunity of bankruptcy doesn't become fashionable. Unless something is written into these loan arrangements that prevents the utilization of the bankruptcy law, I don't think postponement is going to do very much good.

ADMISSIONS POLICIES

Senator BROOKE. At times you have been critical of the subsidies given to State institutions, while schools such as Boston University, for example, have to tough it out. Would Boston University enroll the same students, for example, that the University of Massachusetts does?

Dr. SILBER. You mean, would the standards of admissions be the same?

Senator BROOKE. Yes. Would you take care of those students?

Dr. SILBER. I don't think that one can understand higher education by asking what are the admissions policies of single institutions. Boston University has never been segregated racially or sexually or religiously, so we have never restricted our admissions in terms of criteria of race, sex, or religion. On the other hand, Boston University certainly has varying standards of admission with regard to academic or artistic ability.

Senator BROOKE. What about economic?

Dr. SILBER. Economic—we have made our cost as low as we can and we have made our price as low as we could, consistent with our cost. One of the real mistakes in public understanding, and you find this misunderstanding in the speeches of Commissioner Bell and Undersecretary Trotter, they confuse price and cost in our education. They talk about the relatively expensive independent universities and colleges as opposed to these very inexpensive State colleges and universities. There is no difference in the cost, but there is a difference in the price. The price is subsidized in the State sector, so consequently a student can come there for a much reduced price. But the cost is borne behind

the scenes by the taxpayer who pays the subsidy. And of course in an independent university, we don't have that opportunity of being subsidized by the taxpayer. Consequently, the price we charge reflects very closely the cost of that education. But we don't discriminate against students in terms of their ability to pay. We would be very pleased to increase the number of economically disadvantaged students in Boston University if we simply had the funds to do so.

SUBSIDIZATION OF STATE UNIVERSITIES

Senator BROOKE. That is why we subsidize State institutions, because they do take care of students who are economically disadvantaged.

Dr. SILBER. I don't think that is the reason you are subsidizing, because if your concern were to take care of students who are financially disadvantaged, you could do it less expensively by simply contracting, developing a national voucher system, that the student could take wherever he wanted to. Now we've seen this blown into a cocked hat when Congress, for example, tried or has legislated money for a new medical school for the Armed Forces. If the Congress wants to educate doctors for the Armed Forces they can do that through all of the existing medical schools. They would have to take one or two doctors. You wouldn't have to spend $210 million in capital and operating assets in order to do that. For something like $5 million a year, as opposed to $210 million a year, which would be a return of maybe 2 percent on the capital investment of $200 million, you could educate doctors on a contract system in better medical schools all over the country. So the contracting system, the voucher system, could be a much more economical way of accomplishing this result.

The State subsidy, to the University of Massachusetts, for example, exceeds—substantially exceeds—$3,000 per student. It is closer actually to $5,000 per student. Well, that is in excess of the tuition at Harvard. For less money than the State spends to subsidize the tuition at the University of Massachusetts, they could issue a voucher—had they not already built the university—they could issue a voucher and have that person educated at Boston University, Harvard, or anywhere he could get in. That would be a much less expensive way to do it.

Now that we have reached the saturation point in terms of places, I think it is very important if we simply remove the barrier of price by some sort of equalization grant that will enable the student to take his education where he wants it and where he can get the best kind of education for himself, and that is far less expensive than forcing bankruptcy of independent schools and then going out and building brand new facilities with all the capital waste in the State sector.

BOSTON UNIVERSITY DEFAULT STATISTICS

Senator BROOKE. Have you any statistics of defaults at Boston University?

Dr. SILBER. I don't believe I have them with me.

Senator BROOKE. Would you supply them for the record?

Dr. SILBER. Yes, sir. I certainly will.

CONTACT WITH STUDENTS RECEIVING LOANS

Senator BROOKE. Do your people keep in touch with the students who receive loans, if only to remind them of their financial commitment? What do you do in this regard?

Dr. SILBER. As long as the student maintains his full, ready contact with us, tells us where his address is and what he is doing, and begins to proceed as if he fully intends to pay the loan, we have a very amiable and proper relationship. When he drops out of contact, then we make a few more efforts to reach him again, and if we don't then we refer the matter to a collecting agency.

Senator BROOKE. What success have you had collecting through collecting agencies?

Dr. SILBER. Again, I will have to supply the details, but the impression I get is that our default rate has been relatively low and it has not yet emerged as a serious problem for us. But we see the vector is certainly an alarming one. Although our percentage of default now is, as I recall, a tolerably low one where we can easily discount the default rate in terms of return to the university of the value of the loan, the vector of increasing default is alarming because if it were projected for several years it would reach the point where the loans were themselves prohibitively expensive.

DEFAULT BREAKDOWN BY STUDENT AND PROGRAM

Senator BROOKE. In addition to the statistics on the number of defaults, if you could, give us an analysis, some breakdown, as to kinds of students and programs they are in.

Dr. SILBER. Yes. I am sure that our default rate is running at the present time well below the average for the independent colleges and universities of 8.6, so if I just took a guess it would be around 6 percent. But I will give you a breakdown.

Senator BROOKE. How do you account for that relatively low rate?

Dr. SILBER. It is a substantial care in granting the loans. One thing that we will not do is encourage any student to take out a loan unless that student is academically qualified. It is the issuance of loans to students who do not have the academic qualifications that is probably the most pernicious activity. This is a point on which I think you referred in your opening remarks concerning proprietary schools.

LOANS TO ACADEMICALLY UNQUALIFIED STUDENTS

Senator BROOKE. How widespread is that practice you said was pernicious?

Dr. SILBER. It would be just subjective for me to guess on that. I would think it has to be pretty widespread for you to have a 6 -percent default rate in the proprietary sector.

Senator BROOKE. Thank you very much, Dr. Silber. We certainly appreciate again your very valuable testimony. You have been very helpful to the committee.

Dr. SILBER. It was my pleasure to be here and I thank you for listening to me.

Senator BROOKE. We are pleased to welcome here today Mr. Philip D. Epstein, of Marblehead, Mass., who is going to give us some insights into education from a parent's point of view. Thank you for taking some time out from your busy schedule to be here. Please proceed.

EDUCATIONAL LOANS TO MIDDLE-INCOME AMERICANS

STATEMENT OF PHILIP D. EPSTEIN, MARBLEHEAD, MASS.

DEFICITS FROM PERSONAL FUNDING OF EDUCATION

Mr. EPSTEIN. Thank you, Senator Brooke. I am a middle-class citizen of this country, the father of four children, two graduates of BU, one now attending the school of social work for his masters degree. I have a third son at Cornell in his second year, and I have a daughter who will be graduating high school this year and entering a higher educational institution in the fall.

Up to this point, I have spent well over $60,000 to educate my children. Two of them have gone to private schools prior to going to college. Recently, it has just become too much of a task. I have borrowed against insurance. I have borrowed as much money as I can. I am at the point where I don't think if I walked into a bank and asked for a loan they are very well going to give it to me unless I could come up with some more security for them.

I applied for the basic loan when one of my children said, "Why don't you apply for that?" This is the one at Cornell that was turned down twice. As Dr. Silber just mentioned, the formula under which money is given, I think, does not take care of the middle class person. If $200 million, or whatever the figure is that has been bandied about, is correct, then who takes care of the middle class? The average person, assume he is making $20,000 or $30,000 a year, and the like next year—I face the specter of approximately $18,000 for the three children in school. According to the figures from BU School of Social Work you need approximately $7,200 if my memory is correct, to pay for a child at school. Well, I'm taking just an average for three children in college—two in undergraduate and one in graduate school—and taking the figure of 18—let's assume it is even 15—you have to pay taxes on what you earn, and if you have to pay $15,000 for them, and you have a wife and yourself at home to pay for and other expenses to live, how do you do it? I just feel that there ought to be a change in the way in which it is calculated so that the middle-class child will have an opportunity to have equal education, and not have his father become a pauper or have to hock everything that he owns.

LOANS BASED ON SCHOLASTIC ABILITY

I haven't given it the kind of thought that Dr. Silber has, but obviously there must be a method. I spoke to my son who happened to have spent 1 year at the Hebrew University in Israel and he informed me of something that they did there. I don't know the details but I am sure the Department of Health, Education, and Welfare could easily get the information from the Department of Education in Israel—

where they do it on the basis of scholastic ability, and each institution has its own criteria by which a child takes an exam, like the college boards evidently. If they achieve a certain grade and they seem to want to go, but don't have the money, then there is some sort of a formula whereby the child is supplied with the money to go to the particular school or university that he wants to go to. It would seem to me that that is the kind of thing that ought to be worked out here. I don't know the formula. I haven't had the opportunity to think about it, but I certainly hope to give it some thought as a result of the call that I received from your office.

I agree with what Dr. Silber said with reference to the formula, and he referred to academic ability. I think that there are many middle-class children who have academic ability, who if their parents are going to be faced with what I am faced, are going to have to send their children to no school or they are going to have to send them to State schools. And I feel that if I educated two of my children and the third is partially through college, private schools such as BU and Cornell, that I should not deprive my other daughter of the same thing. Therefore, I think that something has to be done to help us fellows in the middle.

I think a formula on the basis of academic ability with the combination of loan or grant—I don't want anything for nothing. I am willing to pay for whatever I get and eventually pay it back, as I have been doing for the two that have graduated. But I think that some help has to be given to the man in the middle because he has to live.

RESULT OF APPLICATION TO BEOG PROGRAM

Senator BROOKE. Mr. Epstein, you heard Dr. Silber testify in favor of more reliance on BEOG program. It is my understanding that you did seek BEOG assistance.

Mr. EPSTEIN. I did.

Senator BROOKE. What was your experience?

Mr. EPSTEIN. My experience was a turndown on both, on the basis that my earnings were so high that they shouldn't give me anything, that I should be contributing. I spoke to the financial aid officer at BU, because my son applied for scholarship funds at the school of social work, and for my son at Cornell. At BU, the fellow said my son should be able to—they would only expect me to pay about $700—Cornell said somewhere around $1,200 or $1,400, and yet I am having to pay almost all of it, because other than a loan from a bank for the one at BU under the loan for Massachusetts which is $2,500, and $1,500 that I got for my son at Cornell, I have nothing. I have to pay for it, and I have had to go out and borrow.

Senator BROOKE. Mr. Epstein, I appreciate your testimony. Thank you very much.

Our next witness is Robert Spiller, president of the Boston Five Cents Savings Bank. Mr. Spiller is one of the outstanding members of the Boston financial community. A banker obviously is a key man in the guaranteed student loan program which depends on financing through the banking system. A banker also has the headaches of finding sufficient resources to meet the demand and then

making certain the loans are repaid. Thus, Bob Spiller brings us information of substantial importance, and Bob, you are most welcome here and we will be very pleased to have you proceed.

Default Rate on Bank Loans

STATEMENT OF ROBERT J. SPILLER, PRESIDENT, BOSTON FIVE CENTS SAVINGS BANK, BOSTON, MASS.

ACCOMPANIED BY:

HOWARD T. NASON, SENIOR VICE PRESIDENT, DIRECTOR OF MARKETING

PREPARED STATEMENT

Mr. Spiller. Thank you, Senator Brooke. My name is Robert J. Spiller. I am president of the Boston Five Cents Savings Bank, and I am also a trustee of the University of Massachusetts. Appearing with me is Howard T. Nason, senior vice president, director of marketing, who is also more technically familiar with some of this material.

I ask that my prepared statement be placed in the record.

Senator Brooke. It will be inserted at this point.

[The statement follows:]

Measures for Combatting High Delinquency and Default Ratios of Student Loans Repayments

Gentlemen: My name is Robert J. Spiller. I am President of the Boston Five Cents Savings Bank and I'm also a Trustee of the University of Massachusetts.

My testimony before you today will be divided into several short parts:

1. I'm going to cite an example recently brought to my attention which I think is somewhat typical of the situation we find ourselves in;

2. I'm going to put my summary or recommendations first on a point-by-point basis; and

3. If time—I hope to give you some rationale for the positions we've taken in this matter.

A few weeks ago our loan officer brought to my attention an example which I'd like to use both as an introduction and to set the stage for our recommendations as to what is wrong with the Guaranteed Student Loan Program, particularly the high delinquency and default ratios, and how, in our opinion, the program can be made into an economically feasible one.

After some searching for the borrower on a defaulted student loan, we finally contact him, an education major, who had moved to the West Coast. As an education major, he said he really didn't feel an obligation to pay us the loan or even make any attempt at it.

First, he said he couldn't obtain a job as a teacher and, therefore, was getting no value from his education. Second, the loan was insured by the government and the government would make good on it—and even if it didn't the Boston Five was in a far better position to absorb the loss than he was. And, third, since he was trying to build a career as a landlord—he owned three houses and was about to buy another one—his recent business debts and operations took priority over his education debts!

This example points up a lot of things; but most importantly it underscores an attitude that seems to be escalating—that somehow the act of defaulting on financial obligations to the government, the banks, or other large institutions in our society really never comes home to roost. But in this case the accountability for ones actions in skipping out without paying his loans actually does come home—it comes home to his own brothers and sisters who are innocent victims of the depleted resources in the student loan program; less money is available, banks are dropping out of the program, and the goal, the original intent of the entire program, is in increasing jeopardy.

Summary of Actions Recommended for Loan Programs

Here then is a summary of the actions we believe H.E.W. could take, not only to help solve the problems we now have with defaulted loans, but also to help make more money available to needy students and to restore the confidence of lending institutions:

1. Emphasize and publicize the fact that higher education loans carry the same obligations and priorities as any other personal debt.

2. Working through not only the banking industry, but agencies in both the public and private sector to establish better methods of contacting students once they've graduated and left the area.

3. There's a tremendous cost for the banks in just paperwork alone. Let's reduce unnecessary waste and duplication of forms. A major step, for example, would be to standardize GSLP forms for the various state agencies.

4. Shift a larger share of the responsibility and paperwork for the program to schools who, after all, are partners in this program.

5. Change the system to one in which interest is paid to the banks on money due from the Government and not paid promptly. Banks do not like to make interest free loans.

6. Pay the subsidy rate—the interest supplement over the standard 7% rate—on some predetermined index basis, such as a prime rate or the yield on long term Treasury bonds and let the banks know in advance what the rate will be. (a) The present method used by H.E.W. is a mystery to the banks and (b) we don't know what it is in advance. Banking, like any business, must be able to have information to be able to make reasonable projections based on the earning capacity of its equity.

7. And although axiomatic, if the interest rate was allowed to rise, more banks would be interested in GSLP, thus making more money available in the program, and also helping reduce some of the extraordinary and burdensome overhead costs in maintaining this vital program in the first place.

8. Make major changes in the program only after some advance notice to the banks and after some consultation with representatives of the banking industry.

9. Let's publicize some of the success stories of the GSLP. The recent publicity about the simple process of declaring personal bankruptcy, and thus dismissing all one's obligations in one swift stroke, has definitely been harmful. Instead, we've got to do something about emphasizing the positive aspects of the program and the moral obligation of repaying one's indebtedness.

10. Publicize the fact that all students regardless of family income are eligible to apply.

11. Correct present inconsistencies in the "needs test" and increase the automatic needs test criterion above the $15,000 adjusted family income established back in 1966. (It should reflect ensuing inflation.)

Higher Education Loan Program (HELP)

The Boston Five Cents Savings Bank has participated actively in the Federal Guaranteed Student Loan Program since its inception in 1966. The program, known here in Massachusetts as the Higher Education Loan Program (or HELP) is needed more today than perhaps ever before. Looking at the escalating cost of undergraduate and graduate education, coupled with our national commitment to quality education, I'm sure that participating banks in Massachusetts share our sense of social responsibility and willingness to participate.

Let me also make it clear the Boston Five's cooperation from our state organization has been excellent.

From a credit point of view, it is very easy for me to state that much of the trouble with the program is that many loans are granted that do not measure up to the customary minimum credit standards.

If having no losses in the program is a prime objective—and I realize it isn't—loans should only be made to persons who have established a satisfactory credit record. In the absence of a proven credit record, sound banking practice says that student applicants should be looked upon as dependent children, eligible for education loans only if their parents qualify for credit and only if their parents will countersign the notes and be responsible for the debt.

Yet I well recognize that such a policy is not consistent with national policy, nor with the intent of Congress in establishing the Guaranteed Student Loan Program. Certainly many capable and deserving students would not receive a

higher education if loan standards were not lowered. This is particularly true of students from underprivileged areas.

The point I wish to make, however, is that the Guaranteed Student Loan Program does have lower loan standards than is traditional with unsecured loans, and that it is pretty much axiomatic that when you lower your loan standards, you increase your level of loan losses. As I see it, the objective of the Guaranteed Student Loan Program is not one of avoiding any losses whatsoever, but of keeping losses to a reasonable level.

From our own experience, and from what I read in the newspaper of the experience of other banks, the losses are in excess of a "reasonable level." Our default experience has been 8% on the number of loans and less than 7% on the dollars of loans. This is appreciably less than the 25% national figure often bandied about in the news media, yet it is still about four times as heavy as our experience on other unsecured loans. In acquisition and collection cost we find the burden of Guaranteed Student Loan Program loans to be about four times as great as that of conventional unsecured loans.

By the way, I'd like to get some clarification from the committee because it's not clear to me what the often quoted 25% default figure refers to: is it 25% of the students who took out loans, or is it 25% of the outstanding loans that weren't paid? I hope these figures take into account that students often take out more than one loan. If not, they should be adjusted.

Measures for Reducing Loan Losses

In my estimation, the losses under this program could be reduced substantially. Needed immediately are greater collection diligence by H.E.W. and cooperation from governmental agencies and schools in locating missing persons. Needed too is a greater effort at the Federal level to publicize the favorable aspects of the program rather than the negative. After all, millions of people are getting educations as a result of education loans, and the vast bulk of them are repaying their loans on schedule.

Although we continue to do so, the Boston Five is finding it increasingly difficult to justify its continuation in the Guaranteed Student Loan Program. We are a mutual organization, without stockholders, and operated solely for the benefit of our customers. A savings bank, after all, is not much different than a credit union.

We have actively participated in the Guaranteed Student Loan Program since its inception in 1966, and a decision to withdraw from the program would come about very reluctantly. It would only be because we found that, as much as we want to help, the cost of administering the program, our losses under the program, the unwillingness of many other banks to participate in the program, and the lack of involvement on the part of the participating schools places a greater cost and loss burden upon the Boston Five than we feel our depositors should be expected to bear.

In other words, because other banks have dropped out of the program a greater load is placed on the remaining institutions. Of necessity, we've already been forced to put an allotment or ceiling on the Student Loan Program at the Boston Five. Applications for loans are now accepted from existing customers of the bank who've been with us one year: students or their parents who use savings accounts, loans, mortgages, or other services.

Program Weaknesses

The Boston Five, like most banks participating in the program, feels that it is being taken advantage of by the government, with the schools reaping the major advantage of the program and not bearing their share of the administrative costs or the losses. Specifically, we find the following serious weaknesses in the program.

1. The banks take a substantial financial loss on GSLP loans.

A. The cost of putting GSLP loans on the books is approximately four times that of handling normal loans because of the much greater paperwork, letters and time involved. Each loan requires the processing of about ten separatte forms, and communications and correspondence between the bank and student, his parents, the school, the state HELP office and H.E.W.

B. The interest earnings fromthe GSLP loans are below our cost of operation and result in a loss. We must have nearly 6% to cover the cost of interest and

deposit insurance for our depositors and we must have a minimum of an additional 3% to cover the cost of originating, servicing and collecting regular unsecured loans. We need more than that to cover the cost on GSLP loans. Our return on the GSLP loans is guaranteed only at 7% and, even with the bonus, is currently less than 8½%. This loss must be borne by the Bank and ultimately by our depositors.

We actually advocate wider participation of banks by making student loans more attractive. The government policy of setting a ceiling on interest rates at not much more than half the regular interest rates keeps a lot of banks out of the system. They don't want to get involved. If you could get the banks enthusiastic about student loans with realistic interest rates, then a lot of the overhead that it takes to maintain these loans could at least be held to some kind of breakeven level.

2. The cost of collecting GSLP loans, upon maturity, is also estimated at four times that of normal loans. After graduation, students scatter around the country and it takes a great amount of correspondence and effort to locate them and then to get them to commence paying the loan back. (In this we receive very little help from the government or the participating schools.) Loans that go into default always result in much heavier service cost, because of the additional correspondence, phone calls, credit checks and interviews. The ratio of education loans in default is over four times that of other unsecured loans and the collection work per defaulted loan, and therefore the cost, is estimated to be four times that of other unsecured loans.

The result is a workload that is many times that of conventional loans, on loans on which we know we are going to lose money and in which we participate out of a sense of civic responsibility. Is it any wonder that loan officers dread the program so very much.

And of course we are seeing the Savings Banks getting the brunt of the criticism—those that stayed in the Student Loan Program. But what about those who have dropped out? I would hope that you seek their opinions also, because unless we rectify the root causes of GSLP's problems, more banks are likely to follow suit.

CONCLUSION

In conclusion and in general summary let me say that the Federal government could effect substantial improvement in GSLP by cooperating more fully with lending institutions, reducing the burdensome administrative load, seeking greater cooperation from educational institutions, making the interest or interest supplements more attractive to the banks and, finally, taking steps now to create positive public awareness of the success and benefits of the program, as well as reduce inaccurate and misleading reporting of its shortcomings.

Thank you.

PROFITABILITY TO BANKS OF EDUCATION LOAN PROGRAMS

Senator BROOKE. Your rate of increase seems to have slowed in the last 2 years.

Mr. SPILLER. In involvement, in dollars, it increased.

Senator BROOKE. But slowed. You went from $700,000 to $750,000.

Mr. SPILLER. Slightly less, but we have some more technical data for the record.

Senator BROOKE. Is it a profitable business for the banks to be in the student loan business?

Mr. SPILLER. On a direct cost basis, no. But from a PR point of view and for reasons of relationship to the community, it is profitable in that sense, yes, because we are in the business of service. But from a cost point of view it is not profitable.

Senator BROOKE. Is it a civic responsibility?

Mr. SPILLER. It is part of our responsibility to our depositors, to the community, to all of why we are here.

Senator BROOKE. The Federal Government guarantees 7 percent, and then we give them another 3 percent. How does that compare with your other loans?

Mr. SPILLER. Looking at short term, because that is what it would have to be—you would have to relate it to current yield on unsecured loans—is going to run 9 to 10—because this 7 percent is simple interest. For mortgage interest—the current FHA rate today is 9 percent, single family residential. This is 7 percent. The current rate on this is 1½—so the current rate on the loans we made this past fall was 8½ percent. But from that there is a well-documented 3 percent cost, so the 3 off of the 8½ leaves 5, which is 1 percent less than the cost of money. On an FHA mortgage today with a 9-percent rate, the cost of origination and servicing is going to run less than three-quarters of 1 percent.

INCREASE IN INTEREST RATES

Senator BROOKE. At today's money cost what would you suggest that the interest rate be raised to?

Mr. SPILLER. It is going to need to be a minimum of 8 to 8½, plus that escalator in the range of 2½ to 3½, so it gets it into a ball park of netting out so that it at least nets out a say 1 percent plus.

Senator BROOKE. And, would that be profitable for the bank?

Mr. SPILLER. It is livable. I don't think it needs to be that profitable. I don't think most banks regard it as a highly profitable tool in that sense. I don't think they are looking to make money on the programs. We certainly are not. It is part of our involvement. But if we can break even, because that is a responsibility to the depositors, then fine.

Senator BROOKE. Has this been a deterrent for banks to give student loans?

Mr. SPILLER. I think many banks have not participated for this reason. I think other reasons would lie in the complexity of paperwork, particularly when you get into the small banks. They don't have the number of people available to have the technical knowledge needed for all the different programs. It is very difficult for them.

STUDENT DIFFICULTY IN OBTAINING LOANS

Senator BROOKE. I hear from many students that they have difficulty getting the loans. They go to the banks and the banks want to know immediately whether their parents have deposits in that particular banking institution and how much money is on deposit. In other words, the banks appear to be seeking sort of a collateral or security against that loan.

Mr. SPILLER. We haven't done that. We have told them student loans were for people in the area or for people who were customers of the bank—not for the sake of security but for the sake of rationing, a system of rationing the money, because we have a tremendous number of schools in the Boston area, more so than other parts of the country, and if students at any of those schools came in to the few number that are making the loans, it is impossible for that number of banks to take care of that kind of a loan demand.

Senator BROOKE. Is that in keeping with the spirit of the law to restrict loans to students who are customers or whose families are customers of the bank?

Mr. SPILLER. If there are only 10 cookies in the cookie jar and 15 people want them, what is the answer? I don't know the answer.

Senator BROOKE. What about that child whose parents don't have deposits in any bank? How does that child get a student loan?

Mr. SPILLER. If it is possible, we are going to try and help them, but I don't think it is possible to help every single person who comes into the bank. What do we do if there are 10 cookies in the cookie jar if there are 15 children sitting around the table? Who do you give the 10 cookies to? That is the dilemma, and someone has to answer it. If someone has the answer, that's just great. I think we are faced with this problem in the student loan program. There are a lot of people that do not participate and those that are willing to participate, should they take the whole amount of the heat?

Senator BROOKE. Yes; but I just don't think it was the purpose of the guaranteed student loans program to grant these loans only to students whose parents or the students themselves were fortunate enough to have money on deposit in the bank.

Mr. SPILLER. That is not a rule in the sense that it is a total custom. In 1974 when we had heavy disintermediation, this past 14 months ago, when deposits are not flowing into savings institutions there is no lendable money—where should an institution get money that it can lend if there is no inflow of deposits? If the deposits don't come in, they can't be put out, and therefore the only thing a lending institution can do is, it can say we can allocate x number of dollars to the student loan program, and it has to go on a first-come, first-served basis.

LOAN CEILINGS

Senator BROOKE. I hear from students frequently that they go to the banks and the banks say they have run out of money. They just don't have any more money for this purpose.

Mr. SPILLER. That is quite true.

Senator BROOKE. Do you establish a ceiling beyond which you would not loan money?

Mr. SPILLER. When we did not have lendable funds, yes, we had to establish a ceiling.

Senator BROOKE. Were ceilings established at your bank during the periods you have given us figures for?

Mr. SPILLER. In 2 of those years, yes.

Senator BROOKE. What years were they?

Mr. SPILLER. A year ago, 1974, the disintermediation that occurred—last year, in all lendable funds. There was no other choice.

Senator BROOKE. Have you increased that, say, for fiscal 1976?

Mr. NASON. We increased it enough to take care of existing students. Once we get them in a program we will never drop them. We will see them through. And to take the same, plus a few more new ones—so to that extent we are constantly increasing or constantly inching it up.

TOTAL STUDENT LOANS GRANTED

Senator BROOKE. How many new student loans did you grant last year?

Mr. NASON. I don't have the numbers. We can get you the numbers.

Senator BROOKE. Would you supply that for the record?

Mr. SPILLER. We will. We are just one institution that was involved.

[The information follows:]

Howard C. Nason, Sr. V. P.
Director of Marketing

The Boston Five Cents Savings Bank
Ten School Street
Boston, Massachusetts 02108
Telephone 617 742-6000

October 21, 1975

Gar Kaganowich
Minority Staff Member
Subcommittee on Labor, Health
Education and Welfare
1108 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Kaganowich:

Thank you for arranging to have Mr. Spiller appear before the Congressional Hearing conducted by Senator Brooke here in Boston last Friday.

We were asked to provide supplemental information regarding the number of loans made in each of the past four years. They were as follows:

1971-1972	351	loans made
1972-1973	477	" "
1973-1974	438	" "
1974-1975	584	" "

From the questions it was not obvious that savings banks are fairly new to the personal loan business. Most of the banks who are still trying to build personal loan departments have a total personal loan portfolio of 1% to 2% of total assets. It is only in the last two months that we have reached the 1% mark. Our education loans, at $1.8 million, represents about 20% of our personal loan portfolio, which is a reasonable percentage considering that the loans are written at a loss and entail considerable extra effort.

Very truly yours,

Howard C Nason

Senior Vice President

LOANS TO NONDEPOSITORS

Senator BROOKE. Could you also supply for the record how many loans you granted that were to students who either did not have deposits in your bank or whose parents did not have deposits in your bank?

Mr. SPILLER. This would have to be researched because we don't have that broken down. This is not on that kind of computer operation, to have it punch a button and have it print out. We would have to go back and dig it out. There is tremendous demand for student loans. There is no question about it. The thing is, there is not enough money around. There are a lot of people who do not participate and they have their own very specific reasons that are obvious from the problems of default, from the problems of cost and from the problems of the interest rate.

Senator BROOKE. If you sold your student paper to Sallie Mae——

Mr. SPILLER. We can't.

Senator BROOKE. You are prohibited from doing that?

Mr. SPILLER. Yes.

Senator BROOKE. Why are you prohibited?

Mr. SPILLER. I would leave that up to the H.E.L.P. people. We are unable to sell.

Senator BROOKE. Because that would be a source of more money, of course.

Mr. SPILLER. We cannot sell. So that is beyond our control.

LOANS GRANTED ONLY WITH COLLATERAL

Senator BROOKE. I am not picking on you, Mr. Spiller, because I know the record of the Boston Five, both in housing and student loans, but I am trying to get some indication as to how widespread the practice is of restricting loans to students who have money on deposit or whose parents have money on deposit.

Mr. SPILLER. It runs into the problem, and it has happened to us repeatedly, an individual lives in a community maybe 30 miles from here and they are going to go to school. Let's say that local bank doesn't have the capacity or the desire to handle the student loans. They head for the larger banks or they find out via the grapevine that such and such bank over here is going to make the loans. It's like having a penny candy sale. Everybody flocks to the door of the one guy that is willing to do his share and then some, and the question is, how far can that one guy go when other people over here are not? And that is the problem that some of us find ourselves in, and therefore what steps do you take? And you have to take the steps of setting some dollar limtis and saying who should get served first? If an individual is a current customer or depositor or a customer who has borrowed from you in the past and they have been a supporter to that bank—I think there is a degree of loyalty that should come into play.

Senator BROOKE. I can understand servicing your customers and being loyal, but you know, banks can't have it both ways. You remember the red lining bureau that I was very much interested in. In that case, some of the banks wanted to say, Well, we can take the money out of this community on deposits, but we'll give the mortgage money else-

where. We won't put that mortgage money back into that community from which it came.

Mr. SPILLER. On student loans I don't think the banks have had it both ways. I don't think they've had it either way. I think they have been on the receiving end of the criticisms on it and I say it clearly, and I think we have been willing to participate, having been taking the brunt of the criticism, and I think that is grossly unfair.

UNPROFITABILITY TO BANKS OF STUDENT LOAN PROGRAM

Senator BROOKE. Well, I just don't want to see the banks get out of the student loan business. I understand the bank is in business to make a profit, and as you say it is not a profitable business to be in.

Mr. SPILLER. It is an unprofitable business operation but we are not about to get out of it, but we need some help.

Senator BROOKE. And generally, although you speak only for the Boston Five, you certainly have an awareness of what the feeling is at other banking institutions, and you do not see any indication that the banks do want to get out of the student loan business?

Mr. SPILLER. The major participants, I do not believe will get out at all, because they are aware of their responsibilities, and that is why they are where they are.

Senator BROOKE. What percentage of your portfolio is student loans?

Mr. SPILLER. Small, it is small.

Senator BROOKE. Less than 5 percent?

Mr. SPILLER. Yes. In the area of 1 to 1½ percent, which is really all it can be considering the fact that it is a specific loss operation.

Senator BROOKE. What has been your practice in working with the assistance corporation or the HEW regional office?

Mr. SPILLER. I don't have specific knowledge. Do you, Howard?

Mr. NASON. No; I don't.

Mr. SPILLER. Our working relationship is with HELP, almost exclusively. Although the interest may come from the Federal Government, the relationship of the guarantee is from HELP. So it is a little bit different here in this State than in any other.

BANK RELATIONSHIP WITH HELP

Senator BROOKE. What has been your relationship with HELP?

Mr. SPILLER. It has been fine. No problems. A good relationship. No problems at all. I said this earlier. The relationship that we have had with them has been excellent.

Senator BROOKE. Under the law you are required to exercise due diligence in securing repayment of these loans.

Mr. SPILLER. I could recite a lot of banking laws in relation to trustee, reliability, responsibility.

FEDERAL PRESSURE ON REPAYMENT OF LOANS

Senator BROOKE. How do you go about meeting this requirement and do Federal officials pressure you, for example, to secure repayment, or are they lax about this? I would like to know what pressures you receive from Federal officials on this?

Mr. SPILLER. I think we have more pressures from ourselves than from outside.

Senator BROOKE. Do they contact you periodically on it?

Mr. SPILLER. That I don't know. I think there is probably good communication and discussion with HELP people on this, because in this sense, really the guarantee is from HELP, and the Federal Government—I think they are more of a backstop to them, direct to us.

Senator BROOKE. But they have a responsibility in this area, as well as HELP, and I just wanted to know how diligent they are in assuming that responsibility.

Mr. SPILLER. I genuinely don't know. It may be that there are banks that do not have as good collection procedures, and if that is the case then that kind of pressure is needed. Now, whether it exists or not, I don't know.

Senator BROOKE. I don't want to see the banks feel as the students felt—that the Federal Government has insured it so we just don't make any real effort to collect this money.

Mr. SPILLER. Our own philosophy on loan collection, be it a mortgage or be it one of these loans, from a collection point of view we consider every loan identical as to its type. In other words, on a mortgage, for example, if it is a conventional loan or an FHA loan, our collection efforts are identical.

Senator BROOKE. And that would also apply to student loans?

Mr. SPILLER. It would specifically apply to this also, yes. No question about that. We will pursue it just as hot and heavy, because that is our responsibility.

Senator BROOKE. Thank you very much.

We are pleased now to welcome Ronald Friedman, a student at Boston College. Mr. Friedman has applied for a student loan on four separate occasions, has yet to get one, and would you come forth and tell us what your experience has been?

HELP GRANT LOAN

STATEMENT OF RONALD FRIEDMAN, STUDENT, BOSTON COLLEGE

DIFFICULTY IN OBTAINING LOANS

Mr. FRIEDMAN. I am a student, a sophomore, at Boston College. I came to the Boston area from New York City in 1973 and 1974. I have been here since March of 1974. Last year, October 1974, I went to my financial aid officer because of my need situation and I asked if he had a loan situation that I could take up to help me get along in school. I have a family also in New York, with three children and a wife. My educational finances were barely taken care of and this problem also hounded me and I have been trying to deal with it.

I was informed that I was eligible for a help grant loan, but being that I wasn't a resident of Boston, Mass. I had to go back to New York City and get this loan. I am still a resident of New York City now.

In October 1973, I made application and since then I have made three applications and I have been down there four times on four different occasions. I don't know what the situation at the bank was. The bank said the school lost my application, and my financial aid officer had

filled out three applications for me. I know that person is very accurate, and very careful in mailing it, had the dates and times on cards and keeps very good information as far as when they send applications out to banks.

Three applications were messed up by a bank in New York City. I was dealing with First National City Bank because my mother had an account there. I went to two interviews where personally I feel it was a very racist, very prejudiced attempt to sideline me and not to give the loan. I filled out an application three times. I had my financial aid officer look at it each time and everything was in order.

Senator BROOKE. This is the same bank?

Mr. FRIEDMAN. The same bank, right. So I went down to New York City and spent over $50. I had to take the airplane because I didn't have 5 hours to sit still on a train, and neither did I have 4 or 5 hours to spend on a bus. So I had to spend $50 or $60 which I really couldn't spend to do this, and I spent it three times, so it was about $180 that I spent traveling back and forth from Boston to New York trying to find out what was going on, and today—not till this day—I haven't got a loan. I was told by the bank that I was not eligible for the loan because I had moved out of the State of New York to go to school. I had informed them that my dependents were still in New York and they depend on me for support and that my financial situation—you know, they sent down to New York to verify that I was in line for a loan. The bank never got back in touch with me and just recently I applied for a loan in Boston, at the Charlestown Savings Bank. When I first came up here in 1973 and 1974, I opened up a two-way savings account at Charlestown, and I didn't know that that was a prerequisite or that would be the policy for getting help grant loans, that you at least had to have an account there for a year. I ran all over Boston to all the banks including Boston Five, Shawmut, all the different branches, I went to the Higher Education Department to get a list of banks that were involved, and I went to them personally and the ranges of excuses started out, well, first you are not a resident of Boston, Mass., so you can't get a loan. If you are not a customer at this bank you can't get a loan. If you haven't had a savings account or some type of money transactions with the bank, you couldn't get a loan. If you didn't have a prior loan, then you couldn't get a loan. These were the various policies. I was told that these were policies of the bank.

RESIDENCY REQUIREMENTS

So I got an application from Charlestown in March of this year and it took me a while to fill it out because I had filled out two applications and dealing with New York already, and I was very uptight because I needed money for my schooling and for other things, and it would affect my schooling very much. The Charlestown people told me in March that I would be able to get this money. They saw no reason why this money would not be forthcoming. A time of 2 months went down and during the month of July and August I called back Charlestown again and the person there told me that they had changed their policy since March 1, and now that if I haven't had a loan with them then I couldn't get a loan. So I was more or less—it was like a

vicious circle I was hung up in. The banks were telling me I couldn't get a loan because I was not a customer and some banks were telling me I couldn't get a loan because I couldn't show proof of residency.

My school information has been coming to me here for the last 2 years. My income tax information has come there for the last 2 years. My library fines and all this other stuff has come there for the last 2 years. My telephone bill has come there for the last 2 years, so there was no reason why the bank couldn't see that I was a resident of Massachusetts.

Senator BROOKE. What is your residence?

Mr. FRIEDMAN. My residence is in Massachusetts. I have been living in Massachusetts for 2 years.

Senator BROOKE. Your family is still in New York?

Mr. FRIEDMAN. Yes.

Senator BROOKE. And you did consider yourself at the time a resident of New York City?

Mr. FRIEDMAN. Right. I wasn't here long enough to be a resident of Massachusetts.

Senator BROOKE. When did you change that residency from New York to Boston?

Mr. FRIEDMAN. I really actually haven't changed it.

Senator BROOKE. Well, then you are still a resident of New York City.

Mr. FRIEDMAN. Well, OK. Right.

Senator BROOKE. Does New York City have a residency requirement?

Mr. FRIEDMAN. Not unless it is some 6 months or so.

Senator BROOKE. Residency requirements vary from State to State, and I just want to know whether you know.

Mr. FRIEDMAN. I know the residency for Boston, Mass. is that you have been here more than a year, and that you either have—well, the bank told me I had to have a driver's license—but I don't have a car so I don't need a driver's license—a voter's registration card. I haven't registered to vote yet.

Senator BROOKE. This is in order to get a loan?

Mr. FRIEDMAN. Yes; in order to get a loan I needed these things. If I didn't have these things I was like a transient person and they couldn't depend on their money because they didn't know whether I would be here or not.

Senator BROOKE. You still have not gotten the loan?

Mr. FRIEDMAN. No, I haven't. I called up my financial aid officer at Boston and I had them investigate this for me because I was more or less in a—New York couldn't give it to me because I wasn't living in New York. Massachusetts couldn't give me the loan because I wasn't a resident of Massachusetts. I was like in limbo, really. I couldn't go anywhere to get any money, and I needed it. I called my financial aid officer and they called down to Charlestown Savings Bank, and when I got down there yesterday morning I told the man that I was going to have this place investigated because first of all he changed their policy on me within 2 months and I didn't know about it, and now with the policy changed I wasn't eligible for a loan at all. The man I

was talking to said, "Well, if you don't have an application we can't even give you one." But I had an application and I have had it since March 1. So when I came down and showed him my application he said he was sorry he made the statement that he made and he then retracted just about every statement and every thing that happened. Now he told me that the application was being processed and that I should be receiving some information pretty soon.

PLIGHT OF MINORITY STUDENTS

My whole question is, the changes that I had to go through to get this, see. Last year I needed money to go to school and I didn't even get that money last year—from New York or from Boston. Thank goodness there are other grants and scholarships that Boston College has. I am in the black talent program that Boston College has, and I am the coordinator of the black talent program at Boston College, and I am also aware of a majority of other students, minority students—basically right now that is my area of looking at things. Minority students have been applying for these loans and haven't been getting them. I think it is outright prejudice because after you go for your interview—you have to go for an interview first before they give you anything, and if you haven't taken out a loan before you have to go for a personal interview. After the interview, there are excuses like, well, if you don't have a driver's license, if you are not registered to vote in Massachusetts, and if you can't prove that you are a resident, then you can't get a loan. There are many students now walking around Boston College campus who don't have books and don't have a lot of the stuff, the necessities, that they need, that their financial aid package cannot cover because they have been funded to the maximum of the need at Boston College. There are other outside scholarships that they cannot get, or loans that they can't get, that they are being denied.

Senator BROOKE. Have you made these complaints to your financial aid officer at Boston College?

Mr. FRIEDMAN. Yes; I have. Her name is Madelaine Miller, and she knows about them. She is here today.

Senator BROOKE. Has she looked into this?

Mr. FRIEDMAN. Yes; she has. She has looked into my last case, the last case I told you about at Charlestown Savings Bank. I am quite sure that if it wasn't for her attention and her interest in finding out exactly about these policies—because this seems to be a thing that changes every month. If she hadn't called, I don't think I would have been helped at all.

BEOG LOAN QUALIFICATIONS

Senator BROOKE. Have you ever applied for BEOG?

Mr. FRIEDMAN. Yes; I have, but there is a stipulation within that, that if you attended school in 1967 or before, that you are not eligible to apply and I went to the University of Buffalo in 1967 and 1968.

Senator BROOKE. I see. You are ineligible for BEOG?

Mr. FRIEDMAN. Yes. This is what makes this other loan the least path of resistance.

Senator BROOKE. You said you were a sophomore at Boston College?

Mr. FRIEDMAN. Right.

Senator BROOKE. What are you studying?

Mr. FRIEDMAN. Education and philosophy. I was asked by the bank—like the man who was just up here said—you know, whether you are going to be around or not. He asked me what I planned to do with my education after I finished, and I told him that I know there are a lot of schools around Boston and I planned to be in the field of education, to teach in the Boston area after I get out of school. I know there are no jobs in New York City.

FINANCIAL STATUS OF NEW YORK CITY AND OTHER METROPOLITAN AREAS

Senator BROOKE. If there is a New York City. As a matter of fact, I am going back to Washington for a hearing tomorrow morning on the New York bail-out bill and I have been told that it might not be necessary because at 3 o'clock today the city might go down the drain. So maybe you had better consider changing your residency.

Mr. FRIEDMAN. Maybe I had.

Senator BROOKE. Boston seems all right. I don't know, but Massachusetts may not be far behind, being bailed out.

Mr. FRIEDMAN. There is a very oppressed attitude going around, I would say, especially in the minorities' minds because—I listened to the gentleman who is in the middle-income class and I understand that right now everyone is going through changes as far as money is concerned, but I want to say that there have been people that have been going through changes as far as money is concerned for a long time and they have been crying out and their attention, their interest, has been placated to by the various programs that were started by the Department of Health Education, and Welfare and other grants and loans—and right now the minorities, not just black people alone, but minorities, they are in jeopardy as far as funds are concerned, even more so than the average citizen of the United States, and I think if it is looked into as far as the policies of the banks, because I really have a personal feeling that banks have a very selective way that they give out the money, and they make sure that the person who gets the money is a certain kind of person. I wouldn't have this opinion if I didn't go through the change in the New York City bank system and a similar change in the Boston bank system. I think they are very aware of their customers and very aware of who gives them the money in order for them to become a bank and I am quite sure this should be looked into.

Senator BROOKE. Thank you very much, Mr. Friedman, Your testimony is very helpful.

We now have a panel of university financial aid officers, who are among the most important officials at any university, particularly to the student who needs help to finance his education. In a time of high tuition and tight money, their job becomes particularly difficult and vital. The subcommittee welcomes the witnesses. Will each of you please identify yourself prior to making your statement?

Financial Aid Officers Panel

STATEMENT OF THE PANEL OF FINANCIAL AID OFFICERS:
R. JERROLD GIBSON, HARVARD UNIVERSITY
SUSAN HOROWITZ, NORTH ESSEX COMMUNITY COLLEGE
GERALD COUTINHO, SOUTHEASTERN MASSACHUSETTS UNIVERSITY
SAMUEL JONES, MIT
FRANK DELANEY, HOLY CROSS
GRANT CURTIS, TUFTS UNIVERSITY

PREPARED STATEMENT

Mr. Gibson. Mr. Chairman, my name is Jerry Gibson, from Harvard University. I am director of the office of fiscal services. I have a prepared statement which I ask be placed in the record.

[The statement follows:]

GSL and NDSL Loan Programs

Mr. Chairman, student loans are a vital resource in student financial aid, and we are grateful for your time today to hear first-hand reports from financial aid and loan officers. We are very much aware that this legislation is now under careful review in the Congress.

Others will report on many aspects of the GSL and NDSL Loan Programs. Let me confine my remarks to three topics: specific recommendations for Legislative change, a brief description of a present student loan problem in Massachusetts, and a word about the default question.

Legislative Programs

Student loan legislation has developed over a period of years, and we are now on the threshold of a splendid student loan program. Existing loan programs have been carefully reviewed in a report that is available to the Subcommittee, and of which I attach a summary. It is the report by the Consortium on Financing Higher Education, entitled "Federal Student Assistance: A Review of Title IV of the Higher Education Act."

In the loan section of this report, the effort is to simplify and coordinate existing student loan programs so that they will be easily understood by borrowers and lenders alike. The proposal is to have comparable terms of repayment for the two existing student loan programs, and to set total debt limits that will apply to the two programs taken together. It would make interest rates for the two programs the same (7 percent) and deferment and cancellation eligibility also the same. As a student's total debt increases, the report suggests greater flexibility in repayment terms than are provided under existing schedules (offer the possibility of a graduated repayment schedule, for example). It also recommends that the option be maintained for certain educational institutions to act as lenders. Finally, among other recomendations, it asks for an adjustment in the special allowance mechanism for the GSL program, so that the amount can be pegged to a predictable money market indicator.

Parental Loans

One other proposal which I would make, but which is not in the report, involves the possibility of parental loans under the GSL Program. Many families are willing to assume part of the student debt, but we have no reasonable alternative to offer at the moment except bank loans at a 10 or 12 percent interest rate. Why could we not give families the option of having either the student or the parent or both sign the promissory note for an educational loan?

Lack of Borrowing Opportunities

On my second point, I believe that Massachusetts students are presently being deprived of borrowing opportunities which Congress intended for them. The Guaranteed Student Loan legislation provides for a guarantee agency in each state. In Massachusetts, that agency is the Massachusetts Higher Education Assistance Corporation, which administers the Higher Education Loan Plan (HELP).

A major component in student loans is the obvious need for capital. Banks in this area have made substantial commitments to student loans, but there is a clear limitation on the amount of their portfolios they can be expected to devote to this modest-return long-term debt. In 1972, Congress enacted legislation creating the Student Loan Marketing Association (Sallie Mae), with the express intent of helping to provide a secondary market for student loan notes, thereby giving banks a means of turning over their student loan portfolios if they chose.

This new program is working well in States such as Pennsylvania, Michigan, Wisconsin, and Ohio, where the State agency has extended the insurance guarantee to notes purchased by Sallie Mae. Their banks and other lenders do in fact have a secondary market for student loan notes. In Massachusetts, however, the State agency has decided *not* to extend this insurance guarantee to notes held by Sallie Mae, with the result that banks in this State do not have a secondary market and are unable to do anything with their present student loan portfolios except hold them to maturity. It is hardly surprising, therefore, that many students in this State are encountering increasing difficulty in finding a lender willing to make a student loan.

At a time when student financial aid resources are especially important because of increasing costs both in the public and private sectors, a stagnated loan program is an unfortunate circumstance indeed. Some responsible officials in the State or in the Congress need to review this whole situation carefully.

Student Loan Defaults

Finally, let me say just a word about the volatile topic of student loan defaults. You will already know about the problems posed by the proprietary schools. It is simply not possible to deal effectively with all types of schools under the same set of regulations, as Congress mandated in 1972. However, let us set aside the special problems of proprietary schools. Critics of college student loan programs are never quite sure where to aim their fire: are students irresponsible, are banking collection procedures lax, are colleges following proper administrative procedures, is proper direction coming from the Office of Education, is Congress drafting careful legislation?

Students must be held accountable; that is clear. Not only do lenders need good collection procedures, but we need help in federal legislation to amend the bankruptcy laws as they apply to student loans.

Lenders need to be held accountable, and this includes both banks and educational institutions. Some have suggested that educational institutions no longer be permitted to act as eligible lenders. It is true that in the past many colleges have administered loan programs with more than a little indulgence. NDSL loans, with their cancellation provisions, were partly grants for many, and exact responsibilities were often blurred. In the past 3–4 years, however, colleges have undertaken much more serious loan collection efforts, and the records of many are at least comparable to the collection records of banks. In our own case, the number of serious delinquencies in the FISL Program is under 5 percent, and I would argue that 5 percent is probably going to be a residual default rate among all student loans. Incidentally, most banks would be delighted with a 5 percent default rate on their installment loans.

The intent to eliminate all educational institutions as lenders has the effect of *reducing* the availability of loan opportunities for students. Harvard will lend more than $6 million this year as an eligible lender, and I can't even imagine the combination of banks that would be willing to take over this lending assignment. Other large institutions in the country are substantial lenders, they are fully responsible for all loan administrative procedures, and neither do their students have alternate borrowing opportunities. Instead of eliminating educational institutions as lenders, it makes much more sense to set strict lending standards for all lenders—educational institutions and banks alike—and continue the eligibility of any that meet the requirements. There is no question that lenders, as well as students, need to be held accountable.

ACCOUNTABILITY BY OFFICE OF EDUCATION

Lastly, the Office of Education needs to be held accountable. The truth of the matter is that effective collection of student loans, and therefore the question of defaults, depends upon close coordination between the Federal government and the lenders. Unfortunately, there have been serious lapses. It is not surprising that lenders under the NDSL Program were less than sure of their responsibilities when the Office of Education was unclear about program requirements. It was almost ten years after the inauguration of the program that an NDSL Manual for lenders was produced. It was eight years after the initiation of the GSL Program that any government official began to speak seriously about the meaning of "due diligence" under GSL, and the continuing uncertainty even now means that no note which carries the Federal guarantee is in fact 100 percent insured because of the question whether the lender has exercised this nebulous due diligence. It was seven years before the GSL Manual was produced, and the present one is seriously out of date and another is due soon. Therefore, when Federal officials wax eloquent about the serious problems for colleges and students posed by default records, I wish they would be a little more mindful of the extent of their own participation in the problem.

I do not try to defend the loan repayment records of all college students, because there have certainly been abuses. But the roots of the problem go much deeper than just the observation that many students are irresponsible. By and large, students have done what we have permitted them to do: where collection procedures were lax, repayment records are poor; where they are good, repayment records are satisfactory.

A sound student loan program requires that Congress legislate in a way that is clear, straightforward, and consistent. (The piteous cry from NDSL lenders is not to change the cancellation provisions any more—we are trying to administer a nightmare, which bankers agree they wouldn't touch for a moment). The Office of Education must be careful, clear, and exhaustive in describing loan procedures which they expect lenders to follow. And lenders must be prepared to meet stringent operational requirements or else retire from the program.

SUMMARY

To sum up my comments: we can integrate existing loan programs and simplify requirements for both borrowers and lenders. We should try to provide borrowing opportunities that are equitable for students in Massachusetts and elsewhere. And we should review all the elements of the default problem so that we can achieve a constructive solution.

I repeat that I think we are on the threshold of a student loan program in this country of which we can all be proud.

Thank you for your time and forbearance.

INCLUSION OF PARENTS IN LOAN PROGRAM

Senator BROOKE. Thank you, Mr. Gibson, for your statement. It is very helpful. I am particularly interested in your recommendation of including parents as well as students in the loan program. I don't know what statistical data you have for this but I am sure that there are many parents who could take the whole or a part of that student loan and it would be very, very helpful.

We will move on to the next witness.

STATEMENT OF SUSAN HOROWITZ

PREPARED STATEMENT

Ms. HOROWITZ. My name is Susan Horowitz. I am the director of financial aid at Northern Essex Community College in Haverhill, Mass. Thank you for the opportunity to address you today. I have a prepared statement also.

[The statement follows:]

My name is Susan Horowitz, and I'm the Director of Financial Aid at Northern Essex Community College. The gravest concern of the institution which I represent is that the desire for the Guaranteed Student Loan program to replace the National Direct Student Loan program will become a reality. This action would be very detrimental to the community college students whom we serve.

The Guaranteed Student Loan was established as a program which would help middle class families to borrow against their future earnings and their non-liquid assets. In addition, the program assumes a relationship between a family and a bank. The National Direct Student Loan Program was designed to help low income students whose families have neither assets nor assured future earnings; these families have probably not established themselves as bank customers. Loans have always been difficult to obtain in the Merrimack Valley: it seems likely that banks which have always been reluctant to participate would not be willing to replace our program and lend well over $200,000 to the kind of students who are receiving National Direct Student Loans at Northern Essex.

Because banks can impose their own eligibility requirements, many banks have stringent regulations governing who may borrow. It is very common for banks to lend only to customers; many will not lend to freshmen. Many banks decide what kind of education is valuable and make loans on that basis. While it would be unrealistic to expect many two-year college graduates to repay $5,000 for an Associate's Degree, it is not unrealistic to expect a student to repay reasonable amounts of indebtedness since the student is the major benefactor of his education.

Because our students decide to enroll in college late by traditional standards, we must support aid programs with flexible deadlines and the possibility of quick processing. Since banks allocate limited resources to these programs, many banks have exhausted their funds by the time our students apply. We can also process a National Direct Student Loan much quicker than the banks can. The school and the bank take about the same amount of time to issue the actual payments to students; however, the student can be notified by the school that the loan has been approved very quickly. In addition because we are familiar with the enrollment patterns of our students, our money doesn't run out as early.

When banks are willing to make loans, they tend to try to make maximum loans of between $1,000–$1,500. Our average National Direct Student Loan is $350.00; few loans exceed $600.00. The amounts we loan under the National Direct Student Loan program seem to be more realistic for our students than the larger loans banks give.

STUDENT PREFERENCE FOR GSL

It is interesting that the students with whom I come into contact are not reluctant to borrow money in order to pay for their education. Many students indicate that they want a loan application rather than asking for a financial aid application. Many students wish to borrow because they assess their academic situation and conclude that they should not work at all or that they can only handle a part-time job. There are some students who request loans because they want to feel that they have paid for school themselves.

Because of the varied needs of students, it seems reasonable to offer as many options as possible to the population seeking assistance. If either the Guaranteed Student Loan Program or the National Direct Student Loan Program could be all things to all people, it would make sense to eliminate one of the programs. Since the two programs do not duplicate their services nor serve the same population, we must continue to support the two separate federally supported loan programs.

LOAN PROCESSING RECORD IN HAVERHILL BANKS

Ms. HOROWITZ. For the record, I have been at Northern Essex now—this is the beginning of my seventh year—I have processed three guaranteed student loans through the HELP program in Haverhill banks, and two of those loans were processed for bank employee's dependents.

Senator BROOKE. Three in 7 years?

Ms. HOROWITZ. Lawrence and Newburyport are not as bad. Lowell is almost as bad as Haverhill, and University of Lowell suffers more gravely for the lack of participation in Lowell than we do in Northern Essex because more of our students come from the northern part of the county.

Senator BROOKE. That would be out of how many applications?

HELP LOAN PROGRAM

Ms. HOROWITZ. In the help loan program the number of applications is a very difficult thing to measure. If the bank is unwilling to deal with a student, they will not give the student an application. So at that point they can say that they have honored all the applications which they have accepted. This has been a very difficult problem for us in gathering the kinds of statistics we need to give to you to show you what is happening, so that all we can say is, for example, that I have processed three loans from Haverhill banks. The number of students who have given up and never come in to see me because they were turned down by Haverhill banks or that I have been able to help with the well over $200,000 that we have in national direct student loans, just do not become part of that statistic.

Senator BROOKE. How many lending institutions are there?

Ms. HOROWITZ. We have four good-sized banks and two or three smaller banks.

Senator BROOKE. Do you find there is any correlation between loans and student placements—your placements? Have you looked into that at all?

Ms. HOROWITZ. We have some career programs where students can be guaranteed very good jobs after 2 years, and are very able and willing to pay back loans if they have a degree in accounting or business management.

Senator BROOKE. Are the banking institutions aware of this, or have you made them aware of this?

Ms. HOROWITZ. They are not really accepting the associates degree as a prestigious degree which is going to give a student an opportunity to go out and earn a living.

Senator BROOKE. What is your rate of default?

Ms. HOROWITZ. In the national direct student loan program we do not have defaults. We have a delinquency rate and ours at Northern Essex is about 15 percent.

Senator BROOKE. Thank you.

And the next witness, please.

PREPARED STATEMENT OF GERALD COUTINHO

Mr. COUTINHO. Mr. Chairman, I am Gerald Coutinho, director of student financial aid in Southeastern Massachusetts University in North Dartmouth, Mass.

I have a prepared statement which I showed like to have appear in the record.

[The statement follows:]

Mr. Chairman and Members of the Committee:

I am Gerald Coutinho, Director of Student Financial Aid at Southeastern Massachusetts University in North Dartmouth, Massachusetts. I will first make specific comments about the National Direct Student Loan (NDSL) Program and the Guaranteed Insured Loan Program (GILP), followed by comments and suggestions regarding the collection efforts which might pertain to either educational loan program.

I believe that the NDSL Program has been and continues to be a very important aspect of the institutionally administered financial aid programs for needy post-secondary students. This Program, along with its predecessor (National Defense Student Loan), has been generally well-administered and by itself has facilitated the attainment of educational objectives by many students long before the introduction of other need-based federal student aid programs. There are some problems of collection with this Program, but I believe that more vigorous enforcement of collection efforts by the Federal government and by the educational institutions, combined with certain suggestions relative to educational loan collection which I will make later, would substantially reduce the problems of delinquency. As the cost of education continues to escalate without a corresponding escalation in the ability of students and their families to pay for post-secondary education, I think that it is important for the Federal government to continue its efforts in the NDSL Program.

I personally do not believe that it is any longer important or desirable to continue any cancellation of repayment provisions in the National Direct Student Loan Program similar to those which have existed since its inception. The important objective of this Program is to provide assistance to needy students at the time that it is needed, that is, during the period of attendance. By changing the loan effectively into a grant through cancellation during the repayment period, we are, in effect, providing a direct grant to the individual after his period of educational attendance for which he received the assistance is completed. The cancellation provisions, I believe, have also added substantially to the collection problems in various ways. Due to the complexities of cancellation and deferment of repayment provisions in the NDSL Program to date, many students become confused, despite informational

exit interviews conducted by the institutions upon graduation or withdrawal. Borrowers often tend to ignore the submission of the necessary documentation for cancellation or deferment even though entitled to it. They are then technically delinquent, thus somewhat inflating the true delinquency rate. We occasionally find that students will build up several years of cancellation and/or deferment status before submitting any documentation. At the completion of a cancellation and/or deferment period, many individuals are reluctant to begin repayment, apparently because they have been allowed not to do so for so long.

I believe that there are many ways to improve the collection activity of the GILP Program, some of which are unique to this Program, and others, which I shall mention shortly, will pertain to any educational loan program with Federal involvement. The application process is complex and confusing to many students and negatively affects their attitude toward the Program, which I feel extends into affecting the repayment process. Much of this could be avoided with a central staff (probably the Office of Education) coordinating, simplifying, and standardizing the GILP applications, procedures, and reporting activity. Facilitating better communication between the lenders and the educational institutions would help. At present there is no standard, simple method for schools to be notified that a student has in fact received a certain amount of GILP or, in turn, to notify the lender or guarantor of termination of student status. For several years, we have urged the adoption of a multi-copy postcard which could simply and inexpensively carry out at least both of these objectives, which could significantly affect repayment by early notification of both situations.

I feel that each agency collecting guaranty fees under this Program should be required to openly publish annually the fee collections, investment income, and payments made for that year and cumulatively, and possibly its overhead costs. This would certainly keep many of us informed in a more timely way as to the actual status and trends in this Program. Consideration could be given to utilizing a portion of substantial guaranty funds to finance a first-rate collection effort instead of taxing others to pay another's debt outright.

What happens to the diligent collection process after a borrower's obligation has been paid from the guaranty fund?

The massive default problem created by students accepted by proprietary schools must be dealt with, but I do not have sufficient knowledge or background to deal with this problem.

The following final points are those which I think are essential to the collection effort for past and future loans under any Federally-related educational student loan program. The relatively new Federal privacy laws and regulations will virtually tie the hands of an effective collection activity. We are not allowed to ask for Social Security numbers without specific legislative statutes authorizing same, which to my knowledge do not exist for purposes of administration and collection efforts of these Programs. The Social Security number is at times the primary data which distinguishes the records of persons of the same name, particularly over a period of time as addresses become outdated. There have been suggestions that loan collection for Federal programs be tied in with the collection of income taxes, which in my opinion has merit as an alternative at the borrowers option. The lack of a Social Security number on record could confuse and hamper the implementation of such a plan if it were to become a reality. It is also now illegal to use Registrar, Alumni, or similar records in the collection or tracing effort without a specific written release from the student borrower. References provided by the student loan applicant can no longer be effectively utilized legally when a tracing effort becomes necessary.

The delinquency or default on these educational loans does not affect one's credit rating in the vast majority of instances. Borrowers generally know this, thus other more pressing obligations are attended to first. One's credit rating is generally considered to be of importance to Americans seeking credit. I would therefore urge that lenders, guarantors, or appropriate governmental agencies, as the case may be, be specifically authorized and encouraged, if not actually required, to report the instances of delinquents and defaults to any of various national and/or regional credit-reporting

agencies. Unless the commercial providers of credit collectively took the viewpoint that the non-payment of educational loans indicated good sense of credit, and thus ignored it, I believe that this single action would result in a substantial decrease in delinquencies and defaults. We must remember that very few of these borrowers are what might be termed "deadbeats"; most are simply forthright individuals who find it easier and more convenient to ignore this obligation when to do so is relatively non-consequential.
Due to the very nature of these loan Programs and the reasons for their existence, they should be exempted from the bankruptcy statutes, at least for a reasonable period of time well into the individual's repayment period. Most student borrowers are technically bankrupt, i.e., with liabilities exceeding assets, at the immediate termination of their educational attendance. That is, in fact, closely related to the very reason that a need-based loan would have been awarded in the first place---to allow the student to pay later for the education he cannot finance now. If possible, only the payments due and payable at the time of bankruptcy proceedings should be considered in the bankruptcy action. This would then also resolve the situation just mentioned.

More specific study must be given to the instances of borrowers who continue to enroll at least half-time for periods of many years, thus effectively deferring repayment almost indefinitely and increasing the potential of non-payment. The resultant guidelines regarding the awarding and collection policies in such situations should be clearly communicated to educational and lending institutions. These instances appear to me to be on the increase I sense a good deal of confusion over proper procedures in these cases.

In summary, I believe that if these vital educational loan programs . .l or are eliminated, it will result from our collective liberalness and somewhat casual attitude in the lending and collection of these funds. If we are serious about correcting the delinquency and default problems and their resulting detrimental effects on the future of these programs, we must take a more common sense, businesslike attitude and approach, while continuing to be sensitive to real human needs and situations. I thank you for this opportunity to express my comments regarding these issues.

COMBINING PAYMENTS OF MULTILOANS

Mr. COUTINHO. I might also add that another serious problem is the matter of combining payment under more than one loan program. We have students who receive loans under at least two loan programs, NDSL or nursing student loans, and the guaranteed insured loan, and those students face the double payment for the same period of time upon graduation. There is no convenient mechanism at this point to try to combine either the repayment location or the loans themselves into a longer repayment period, which could certainly be looked upon. This is particularly in effect where banks limit the size of the loan. For example, one bank locally has this year limited the size of the loans to $750. If the student in fact needs more, the student will then go to another bank and get the remainder of the eligibility, and now has two loans to pay back separately upon graduation, and it only confuses and detrimentally affects the repayment, and a possibility of default.

BANK LOAN RECORD IN SOUTHEASTERN MASSACHUSETTS

Senator BROOKE. Thank you very much, Mr. Coutinho. Have you had any difficulty with students getting banking institutions to give them loans in your community?

Mr. COUTINHO. I would have to say that qualified by the kinds of excuses you have heard today, such as "Do you have deposits here," "Does your family have a deposit here," that type of thing, in our particular geographic location in southeastern Massachusetts, the local lending institutions, I feel, are very good in this program and I have said this to them and to my colleagues in financial aid on many occasions. I am not fully satisfied with the availability of these funds, but I think that our local lenders in our area are extremely good. However, they are reaching their limit, too. As I said earlier, one local bank has put a limit of $750 on every loan this year no matter where the students are attending school. Another bank has insisted that there be no new loan recipients. They just simply hit their portfolio limit for these types of loans. So we just have to work as well as we can, and if I really get into a bind, which I have done in perhaps four or five instances over the past couple of years, I work with the Massachusetts Higher Education Assistance Corp., and I must say that in those few instances they have been able to generally find some source of loan, if not at the actual bank that the student applied at originally, then an alternate bank.

LACK OF DESCRIMINATION PRACTICES

Senator BROOKE. Have you had any difficulty at all with complaints about sex or racial discrimination?

Mr. COUTINHO. Honestly, I have not.

Senator BROOKE. You have a large Portugese community.

Mr. COUTINHO. Yes. We also have a considerable black population, and I have not seen any discrimination of any kind that I have seen any effect on. Whatever student goes down to the bank for a loan in our area is treated, as far as I can see, equal to any other student. I might

add that our particular institution is a State public institution, therefore relatively low cost with the majority of students and therefore I would not have the volume of loan activity that might be—particularly for the community students who would deal with those local banks—that perhaps a larger, higher cost, private institution would have. In 1974–75, we processed 503 loan applications at our institution of approximately 5,000 students.

Senator BROOKE. Miss Horowitz mentioned, if not curriculum discrimination, curriculum preference. Do you run into any of those problems?

Mr. COUTINHO. I have not run into that problem at all.

Senator BROOKE. Thank you very much.

Next, please.

STATEMENT OF J. SAMUEL JONES

Mr. JONES. My name is J. Samuel Jones. I am associate director of student financial aid at the Massachusetts Institute of Technology. I am also the chairman of the committee on the Massachusetts HELP program of the Massachusetts Association of Student Financial Aid Administrators, MASFAA, and we have been involved in some studies in that area in the past few weeks.

I have a prepared statement, but this has been a very active morning, somewhat volatile, and many of us have had reactions and thoughts and new information even, that perhaps we didn't have when we came in.

MIT SUCCESS WITH LOAN PROGRAMS

Briefly, I would like to be a little bit historical here and then deal with the local aspects in the sense of how MIT experiences these programs, and then look at the larger issues that I think we are seeing here. MIT has been in the student loan business since 1931 and we find there are two dimensions of this: a very large program for its time and also very large loans to the individual student. We would cover tuition then, and a loan to cover a $3,700 tuition would not be at all unusual. The aggregate indebtedness almost standard for a financial aid student—which is about half of our student body—would amount to $4,000 to $5,000 on up to $8,000 if you tie in the guaranteed loan that the student can get outside.

The volume we are doing—we are talking about MIT—and I am talking about only 2,500 students, graduate and undergraduate—the volume I think is fairly impressive. Just from MIT generated loans—we are an institutional lender under the guaranteed loan program—and we also, of course, have over 1½-million-a-year volume on direct student loans, and then we still have our own institutional funds. The volume of just MIT-generated loans is about $3.2 million, and if you add into that the outside loans that students get for themselves under the guaranteed loans, just that we know about, we are up very close to $4 million a year now, and rising.

About $600,000 is borrowed by our students, to our knowledge, outside of MIT, and as you might be aware, we are a national institution deriving our students not only from practically all of the United States, but a very large foreign contingency as well. I might add there briefly that we lend about $500,000 a year to foreign students and I

assure you that the uncertainties involved there are somewhat in excess of the uncertainties we have been talking about here this morning.

Senator BROOKE. That is under the MIT funding, is it?

Mr. JONES. Those are MIT funds, of course. Only a permanent resident is eligible to borrow the Federal funds.

AID PROGRAM AT MIT

The loans at MIT are an extraordinarily important part of our aid program. For example, our institutional loans have been able to take the place of the loss of fellowships coming in to our graduate school. We hear much of default and less of delinquency. Mostly we are talking about problem paper. But 70 percent of our students go on to graduate school. At any time, probably 10 to 15 percent are out of school temporarily. Some go into military service; some are on leave to foreign universities. We are a volatile campus. MIT tries to catch them as they go and come, but it is about like trying to capture and band jet-propelled bees. In short, any statistics about delinquency and default which were extracted from such a lively population would be suspect. True, our figures are higher than they were 20 years ago, perhaps 5 to 7 percent, but then we talked of losses of only one-tenth of 1 percent. We are lending to many more students and keeping better records. We know we are right in the vortex of the action generated by a heightened awareness of the necessity for equal opportunity.

It is obvious that loans, while a large scale operation at MIT, absolutely critical to our students, to the school, are one thing with an elite population, and another matter with other populations. The history of the guaranteed loan shows that this fundamental truth has not been at all times and places clearly understood.

GUARANTEED LOAN

As is well known, Massachusetts is the birthplace of the guaranteed loan. Here was the first marriage of the bank lending without collateral to an independent private nonprofit guarantee fund, originally subscribed to by voluntary contributors, then maintained and vastly augmented by fees charged to student borrowers. New York, New Jersey, Georgia, Pennsylvania, and other States followed, but as agencies of the State.

The Federal insured loan program was mounted with features obviously designed to appeal, especially to the middle-income parent. We thought of it at the time as almost as a kind of parents' loan. The recipe contained not only the necessary guarantee of repayment, but also a Federal subsidy making for a zero interest rate while the borrower is a student or in deferred status. Moreover, with a 10-year repayment period, these loans were obviously unusually attractive to the middle class. For example, one could literally borrow one's own savings, pay no interest; instead, collect interest at the going rate, and at the end of the grace period he could pay off the loan or let one's son or daughter begin the repayment at the 10 percent of principal per year. One has heard of bright students investing their loans at a profit. Thus, cash flow and bill paying is not the only service implicit in the guaranteed loan.

Such a good loan had, however, these three things going for it: zero interest for now, the all-important present; deferred, then slow repayment; and availability, which made it attractive to students from below the middle-income segment of the population. There is no question that this development, in spite of the moderating, inhibiting role of the banking community as principal lenders, set in train the twin effects of mass, including poverty-level borrowing, and the advent of the proprietary school with its pattern of signing up students with simultaneous guaranteed loans to cover tuition. Open admission at institutions like gigantic CUNY led to further expansion, if not exploitation. To some degree, the problems of GILP are the problems of urban youth.

In sum, what started out as a middle-income parents' loan, became a poor man's loan, then a loan for profit-oriented institutions, and thus what was born of sympathy for the few developed into a much needed loan for the many, who in some instances have exploited or been exploited by others using the guaranteed loan with scant concern for tomorrow. Education has doubtless been vastly enhanced, but not always.

I submit, however, that Congress should not only be clear that guaranteed loans are crucial to the poor, and understand that one reason is that NDSL was not expanded adequately to meet the demand fostered by the educational revolution of the late 1950's and 1960's, but it ought also to take some pride in the program. It certainly should think long and hard before it dismembers a program which is patently doing so much that it is not only good but necessary, that may be seen as costly in the context of bankers and their usual customers, but which has social vitrues out of all proportion to its cost, which is probably less than one B–1 bomber a year.

It is the most flexible program we and the students and their parents have. It provides relief over an enormous economic range of the population, but only proportionate to the range in educational costs—from a CUNY, say, to a Harvard or an MIT, now topping $7,000 a year in total cost per student.

We can trim, tune, and tie up loose ends. We could do with less paperwork, more policing and auditing of certain areas of education, and here and there, as in Massachusetts, some restructuring of the whole system is needed. But unless Congress has found a broad sentiment in the country of which I am unaware, it will save and strengthen this program rather than emasculate it.

Senator BROOKE. Thank you, Mr. Jones. Your recommendations are well received. They come from long and impressive experience in the field. We are very grateful to you.

RECHANNELING OF LOANS INTO OTHER AREAS

It has come to our attention, as you indicated, that some bright students have used student loans and invested them at a profit. What can you tell us about this?

Mr. JONES. I have heard of it. I have mentioned it in my testimony. We have heard of students, especially students engaged in business-type programs and educational programs, where they learn about the stock market and so forth, real estate, et cetera. I have no doubt that

as a middle-class aspect of this loan, the loan is taken out obviously for cash flows reasons, for example, and that in a variety of ways the loans are there to be exploited, in a sense. I don't know much that we can do about that. I suspect that these people are not your problem as far as repayment is concerned, though.

Senator BROOKE. Well, unless they make a poor investment.

Mr. JONES. That may be part of their education.

Senator BROOKE. But it is not the purpose for which the loans are made available.

CLOSER MONITORING OF LOANS NECESSARY

Mr. JONES. Yes; I know. We try to monitor it, but those problems, I think, would be minimized with closer dialog, better dialog, closer integration among the separate parties to this. There should be more interaction, more communications between us and the banking community, as long as the banks are exclusively or almost exclusively the source of capital. Certainly we could stand, as I think someone so ably pointed out, better integration with the Office of Education who have not been able to generate the kind of manuals that we should have. I am sure that you are able to find out the reasons for that better than we are. I have the greatest respect for Mr. Cole, who is the Associate Commissioner in charge of this program. I think he could do a lot if he had the freedom to do it. But much needs to be done. We are the people who can keep track of students insomuch as this volatile community can be kept track of, and in this country, of course, we know that freedom of movement is one of the basic rights. The aid officer and the aid office, I think, is a critical part and one that is often overlooked, not only by Congress and not only by the Office of Education, but by our own institutions. We have a lot of information. We have a lot of contacts, which is simply taken for granted, and nevertheless we are often overloaded. We have enormous caseloads, hundreds of people per person, per staff, that kind of thing. I would hope that maybe all of these various factors would be taken into consideration.

IMPORTANCE OF CAMPUS AID OFFICER

Senator BROOKE. Well, I certainly consider the aid officer very important in the campus community, as I said in my introduction when you were coming up. I think it is very, very important. I just wonder if we are talking to each other. You all are talking to HEW and to the bank.

Mr. JONES. I don't have this experience of talking with the bank. I would like to interject here that at my own institution we have a large staff, we are able—we are staffed up to do the kind of job that I am talking about, and we do have full support of the institution. I am afraid that I don't see this universally, though. Especially in some of the larger institutions you have the smallest staffs, as it were.

IMPROVEMENTS NEEDED IN COMMUNICATIONS WITH BANKS

But let me come back to your question. I think there is a lot of room for improvement in our communications with the bank. Mr. Coutinho

spoke of the banks in his community. I have spoken with Mr. John Vonsaker, who is a member of our health committee, last night. He is at Bristol Community College and he said, "Sam, I can call any number of five banks at any time I have a problem with a student and get them a loan." Well, we can do that with one bank, and because we are an institutional lender and because we have chosen to use the leverage that comes to us by virtue of our keeping our payroll, let's say, in a certain bank—we have no such problems. We have eliminated the problems before they arose. But that is a very big, powerful, financially secure institution talking, and it is one aid officer among many who has this kind of communications.

I think the generality would be, and I think my colleagues would support me, that we don't have very good communications with the banking community. The guaranteed loan organization stands more or less between us and the banks.

POSTGRADUATION PLACEMENT

Senator BROOKE. Well, I am very much concerned about the point Miss Horowitz raised, at a particular institution like MIT the opportunity for a graduate to be placed, certainly in a job, but he may even be placed in a lucrative position after graduation. That would be much less a risk, say, than the student who goes to a community college, for example, where he may not fare so well when he gets out, or is able to get a job, particularly in today's market. He would find it very difficult getting a job to enable him to pay back the $7,000, for example.

Mr. JONES. Right. One of our former borrowers was scheduled to be an astronaut for the program. It is a different kind of thing when you are talking about that sort of thing. When you are talking about someone who is trying to pull himself up by his bootstraps, you are talking about risk of an entirely different order, and yet here we are trying to use the same program, the same legislation, and the same apparatus as it were, the same procedures, to meet these quite different social obligations.

Senator BROOKE. Thank you very much, Mr. Jones. There are so many questions I would like to ask you, but I know we won't have the time to do them all.

STATEMENTS OF FRANK DELANEY AND GRANT CURTIS

PREPARED STATEMENTS

Mr. DELANEY. Senator, would it be possible for the remaining two members of the panel to waive their statements and proceed to questions?

Senator BROOKE. I would appreciate that. Mr. F. H. Delaney of Holy Cross and Mr. Grant Curtis, of Tufts University, have kindly consented to waive their statements, and their statements will be included in the record in full.

[The statements follow:]

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STATEMENT OF FRANCIS H. DELANEY

Good morning, my name is Frank Delaney and I am the Director of Financial Aid at Holy Cross College in Worcester, Massachusetts, and I am also the President of the Massachusetts Association of Student Financial Aid Administrators. I am pleased to have the opportunity to be with you this morning, and my remarks are concerned with a set of objectives which our Association would like to see accomplished in our Guaranteed Loan Program which is identified as the Massachusetts Higher Education Loan Program or the HELP Program.

Other testimony today will reinforce and amplify the general concern which we have been experiencing here in Massachusetts for the last half dozen years or more, and our experience is not unique in the United States, since we understand that many of our problems are common ones elsewhere. We do know, however, that in many Eastern States and bordering States, difficulties in the Guaranteed Loan Program have been resolved through rational discourse amongst student aid officers, the banking community, and the State agency charged with operation of the loan program.

Our experience in Massachusetts has been quite different, and three years ago our Association established a loan committee of student financial aid officers to clarify the problems and recommend solutions in an effort to meet our primary objective for a guaranteed

loan program here in Massachusetts: "A reliable guaranteed loan source for all students in need of such assistance."

Every financial aid officer has heard numbers of complaints about the difficulty students have in getting loans. You may be familiar with Joseph Heller's best selling novel of about ten years ago, "Catch Twenty-Two". The HELP Program has often been referred to as a Catch Twenty-Two program--no matter what qualifications some students presented in requesting a loan, it always seemed that they lacked that one qualification which would assure them of the loan that they needed. An account of some substance of more than six months in standing, that the bank did not lend to freshmen, that the bank did not lend to graduate students, that the bank was not lending to students in certain academic programs, the student didn't "look" quite right, the bank was only making renewal loans, or the bank was not in the program at all as of yesterday.

Recently, we adopted a set of six recommendations which are the result of our inquiry into the problems regarding the Guaranteed Loan Program here in Massachusetts. For the most part, the problems center around loan availability rather than loan default difficulties.

Our first objective is universal availability of a HELP loan so that the program is a reliable and viable source of student assistance for those in need of it. This is currently not the case as suggested above. No doubt you will hear today that we have increased our loan

activity by more than 12% during the current year, and while I praise that increase in volume, I must emphasize that demand in the current year far exceeds that 12% increase in guaranteed loans transacted.

Our second objective concerns difficulties our colleagues in the banking community are currently experiencing with the directors of the HELP Loan Corporation itself. MASFAA recommends that any bank which is an authorized lender in the HELP Program should be able to warehouse or market loan paper with the Student Loan Marketing Association and that loans marketed through Sallie Mae carry the full guarantee of the HELP Loan Corporation, thereby improving the positions of the banks with regard to capitalizing additional student loans. The Massachusetts Bankers' Association has been frustrated by the HELP Corporation in their attempt to establish a warehousing and sales arrangement with Sallie Mae.

Third, a single page application form for the Guaranteed Loan Program which will be available both at lending institutions and at schools may be as compelling an objective for the college student aid officers as the warehousing arrangement mentioned above is for the bankers. Three separate forms are required to process a HELP loan application in Massachusetts. Most other States have a single page application. MASFAA requires that the single page application recommendations which we provided to the HELP Loan Corporation in September be adopted and in use before the next processing year. We

believe it is essential that these applications be available at the schools as they are in California so that we will be able to provide a recommendation and a loan application for students to take to a bank with them. All too frequently, students are not able to even obtain a loan application.

Fourth, a verifiable system of documenting loan applications which are rejected must be developed. Currently, there is no mechanism for identifying students who have attempted to process guaranteen loans but who have been rejected for one reason or another. This documentation system could be a simple form letter on which the bank could check off its reason for not processing a loan for the student, whereby the student could verify that he has been turned down for a loan and present his request to an alternative loan source which is our fifth recommendation.

MASFAA believes that a back up loan system must be established in the Commonwealth to handle cases where students are not able to process a loan for whatever reason. This Association believes that a lender of last resort must be established to assure citizens participation in the Guaranteed Loan Program. We understand that such a back up system is in operation in the State of Connecticut at the present time.

Our last two objectives concern the administration and policy areas of the Massachusetts HELP Program. First, MASFAA recommends

that greater representation on the Board of Directors of the HELP Corporation for educators and financial aid officers be established. Additionally, we are concerned that representation for women and minorities be developed. Also, more participation and activity by the Board of Directors in policy formulation and advisement for management practices in the Guaranteed Loan Program in Massachusetts is needed currently, the Board is made up of people not directly involved in education, and availability of Board members or even thier sensitivity to the difficulties being experienced in all quarters is sorely lacking. MASFAA is convinced that the members of the HELP Loan Corporation Board are totally unaware of the difficulties and dissatisfactions which exist regarding the operations of our State Guaranteed Loan Program.

Secondly, this Association understands that a raise in the guarantee fee for student loans from one-half of one percent to one percent has been requested without sufficient justification or explanation of the need to increase the guarantee fund which currently stands at some 2.6 million dollars.

Our Association has attempted during the past three years to resolve difficulties with the Massachusetts HELP Loan Corporation, but we have been frustrated and put off at every turn. We have only recently learned through dialogue with the Massachusetts Bankers' Association that communications breakdowns and lack of response by the HELP Loan Corporation has frustrated Massachusetts bankers as

well. We have raised serious questions of need for improvement in our State Guaranteed Loan Program, but if we are to truly serve the national interest and accomplish educational objectives for the financing of our programs for secondary education, MASFAA feels the above objectives must be accomplished within the next year, and we earnestly seek your support and assistance in this end. I will be happy to answer any questions which you may have. Thank you very much.

STATEMENT OF GRANT E. CURTIS

Members of the Committee: Oct. 17, 1975

Thank you for the opportunity to speak today on matters pertaining to the Guaranteed Insured Loan Program. I am Grant Curtis, formerly President of the National Association of Student Financial Aid Administrators and at present, Chairman of the Board of Directors of the National Institute for Financial Aid Administration.

I have been Director of Financial Aid at Tufts University in Medford, Massachusetts for sixteen years, and for that period have also been elected annually to the Board of Directors of the Massachusetts Higher Education Loan Plan. Thus I have seen the GILP program, or HELP as we call it in our state, grow from its infancy in the late 1950's to the hydra-headed, but benevolent, giant with which we wrestle today.

Tufts students eligible for GILP loans have come from all of the 50 states, and from abroad, so I have observed the workings of the state and federally insured programs in most of their forms as GILP applications have flowed into my office. Tufts has processed about 1500 of these applications so far this year for its 6000 students. I am not able to report how many of these applications were granted, since not all banks, credit unions, or state agencies notify us or send the check to the school when a loan is made. Rarely are we notified officially that a loan has been denied, although unsuccessful students ask our advice and we refer them to the President of HELP in Boston or to the head of their state's agency. Sometimes these officials are able to direct a student to a bank that will make the loan; at other times they have been unable to do so.

We give very complete information to students and parents about eligibility for this form of aid and advise them to go to their local banks or credit unions. Although Tufts has kept no count of students who seek but do not find GILP loans, we have subsequently talked to the unsuccessful ones.

It appears that many students are turned off at the local level, before an application is made. Some of the reasons that I have heard from students are:

1. have not had an account with bank for 1 (and up to 5) years,
2. do not make these loans because they are unprofitable,
3. not a resident of the state,
4. have exhausted funds committed to this type of loan,
5. make loans only to previous recipients,
6. do not make loans to freshmen,
7. do not loan over $1000 or $1500 a year when student needs $2000 or $2500.

Graduate students and freshmen seem to have particular difficulty in obtaining GILP loans, the former because of changes in residency of student or parents and because large amounts are frequently needed each year. For example, our Dental School has a 3 year program of 11 months a year so that 4 academic years are completed in 33 months. The tuition alone is $5700 for <u>each</u> of the 3 years or $17,100 for the program, excluding instruments, books, supplies and living expenses which add about $14,000 more. Some lenders or agencies still limit their loans to $1500 for each of the 3 years, even though we point out that 4 years' tuition and 4 years' academic experience are being paid for and completed in 33 months. Some lenders will loan up to $2500 for each of the four academic periods, but some state agencies refuse to recognize the accelerated program. Other agencies and lenders have academic year or residency requirements which are difficult for some students to fulfill.

I firmly believe that both the Guaranteed Insured Loan and the National Direct Student Loan Programs need to be continued, improved in their operation and coordination, and expanded as costs to students increase. The NDSL must continue because it places an invaluable tool in the hand of the campus aid officer who is striving to package a combination of scholarships, loan, and jobs to meet the measured need of very large numbers of students. The aid officer can not wait to commit the available aid while students chase from bank to bank to see how much, if any, loan will be received. And, we desperately need the GILP program which provides over a billion dollars a year of new capital to students not aided sufficiently or not at all by the campus based programs,

by Health Professions aid which is being reduced so radically by Congress, and by state and private assistance.

I suggest the following improvements nationally for Guaranteed Insured Loans. State agencies and lenders could be asked to comply in order to obtain the federal guarantee of loan repayment.

1. A single application form, preferably similar if not identical from state to state, should be available at post-secondary institutions, not just at banks. Students would then be able to obtain the school's recommendation and take it to the lender. Lenders should be asked to notify the state agency in writing of the reasons for the denial of an application.

2. State agencies, and private corporations acting in lieu of state agencies, should furnish upon request the names of participating banks and credit unions to post-secondary institutions and to students.

3. A parental co-signer should be required on loans to dependent students when adjusted family income is over $15,000.

4. Considering inflation and the length of time the current limits have been in effect on GILP loans, the annual and total amounts should be increased, and the adjusted family income figure should be raised to $20,000 or more.

5. State agencies should be encouraged to allow lenders to sell or warehouse their loans to the Student Loan Marketing Association (Sally Mae). Some provision should be made to insure that a percentage of the amount received by the lender be re-loaned under the Guaranteed Loan Program.

6. Banks which are depositories of state and federal funds should be encouraged to make substantial commitments to the GILP.

7. Provision for the consolidation of NDSL, GILP, and HPL debts is needed at the beginning of the repayment period to prevent overlapping or overly large repayments that may cause defaults. Sally Mae would appear to be the logical solution to this problem.

CEILINGS PLACED ON BORROWING

Senator BROOKE. Someone has suggested that the best and quickest way to prevent defaults and keep other problems at a minimum is to put a ceiling on borrowing under any and all Federal loan programs. Financial aid officers are responsible for helping the student put a financial package together. Now, what thoughts do you have, Mr. Delaney, on possibly a $2,500 to $3,000 ceiling per year?

Mr. DELANEY At my college, 75 percent of the families which use the guaranteed student loans use them to replace the parental contribution, and I would consent to a higher loan limit but I would do it only if we were sure that repayment could be effected. I would recommend possibly using the parents as a cosigner with the Federal guarantee as the third backup on the loan to prevent the catastrophic loss in regard to the family bankruptcy. I suspect that would go a long way to eliminating the default difficulties we are concerned with today.

Senator BROOKE. Do you try to hold down the number of different loans a student gets, or do you advise them to try everything?

Mr. DELANEY. What we do is, if we package a national direct student loan and the student's award as part of his need component and the family seeks to use the guaranteed loan additionally, what I do is to contact the family by telephone or by letter and ask them to what end do they want to use this loan? Is it to replace the parental contribution because they are not liquid—they can't make it out of income for the most part—and this is the kind of reasoning that I get in response. So I solicit from the family a written statement as to whose responsibility lies where in terms of loan repayment when the student in double loaned, so in a sense I extricate from the family an acknowlegement, a commitment on their part that, "Look, we are putting Johnny or Mary into a double loan here, but we fully intend to pick up the bank loan." I feel fairly free to recommend a guaranteed loan under those circumstances.

LOANS USED AS LAST RECOURSE

Senator BROOKE. Mr. Curtis, is it within your responsibility to try to guide a student away from a loan if you believe it will place undue burdens on the student or that student's family?

Mr. CURTIS. Yes. In financial aid counseling you naturally try to help the student to the best sources of financial aid that are available to him. Most students—not all, but most students I think—and most financial aid officers, try to use loans more as a last resort than they do as a financial aid of first resort. Each year when we are making renewal awards to students, when we notice that large loans have been taken in the way that Mr. Delaney just mentioned—both the national direct loan from us and the parents and students using the guaranteed loan as the substitute for part of or all of the parent's contribution, we will frequently try to raise the scholarship or work component of the student's financial aid to keep down the amount that he borrows in the following year. We encourage students in whatever ways we can, summer work and so on, to keep down the amount of loans until they are absolutely necessary. That is my orientation. I am not sure that everyone feels that way.

RECOMMENDING BEOG PROGRAM

Senator BROOKE. If you find a student that is in really dire financial straits, and the family is as well, and they come to you for a student loan, do you say, "Well, you ought not to apply for a student loan, but maybe you ought to apply for BEOG, for example"? Do you do that?

Mr. CURTIS. Definitely. I think practically all aid officers encourage students to apply for the forms of aid for which they are eligible. However, by the same token, that student who has applied for the forms of aid for which he is eligible may not have received some of them, particularly a basic grant because those are so restricted by the—actually the Office of Education, the family contribution schedule, not the Congress. The Congress, as you know, just looks at them.

Those students would be encouraged to keep the loan as low as possible, certainly. I would point out one further thing and that is that the students don't necessarily need to borrow the same amount each year. I point this out to freshmen in particular, where we somewhat discourage a great deal of campus work during the first year, when they are becoming acclimated, and encourage loans during that year if they are needed. After the first year, I indicate to the student there are various ways that larger amounts of money may be obtained through employment, summer and school year, and less money borrowed.

WORKING RELATIONSHIPS WITH BANKS AND GUARANTEE AGENCIES

Senator BROOKE. What sort of working relationship do you have with the banks and guarantee agencies?

Mr. CURTIS. Part of my statement was addressed to that point, but we processed about 1,500 GILP applications for the current year and we have 6,000 students. We are not uniformly notified of who is successful and who is not. We do know, however, when many students have loans, but not all. When students come to us who have been unsuccessful in finding a loan, I have been able to recommend to them that they go to the president or the head of their State agency who frequently has been able to direct them to banks. This is not uniformly true, however, either in this State or in other parts of the country, by a long shot, and so as I said in my statement, we think, but do not know the number. There are a large number of students who are not obtaining these loans for one reason or another. I have listed six or eight reasons in my statement for you. I do not have a bank that I can go to, if that is what you mean. Some institutions do.

PROBLEMS DETERMINING LOAN RECIPIENTS

Senator BROOKE. One of the problems in many parts of the country is that financial aid officers do not know on a timely basis whether loan applications are resulting in actual loans. Do you have the same problem here in Massachusetts?

Mr. CURTIS. You are asking whether the institution learns whether the student will receive the loan or not? I think the situation is as it has been for a number of years, that we do not uniformly know who receives a loan and who does not, partly caused by the practice of sending

the check to the student rather than to the institution, and sometimes by the check coming to the institution but it being labeled by the bursar as a cash payment or a payment from one of the other types of loan funds other than a guaranteed insured loan. I have one or two suggestions in here along this line, sir. I suggested that students and institutions need to know which banks are making these loans and I suggest that the State agencies be asked to make that information available upon request, as to the participating banks and credit unions for one thing, and I also suggested that a single application form, preferably similar if not exactly identical throughout the country, be available. But it be available at the colleges and universities, not at the banks. Much of the burden of my testimony was that the students are turned off at the local level before a written application is provided. The student must go to the bank to obtain the application. I am suggesting a standard and relatively simple form, multicopied, that would be completed by the school and the student before he or she goes to the lender, and that furthermore, lenders be required to notify a State agency in writing of the reasons for the denial of an application so that we could collect some figures on whether students actually are or are not being turned off at the local level.

UPDATING OF BANK LISTINGS

Senator BROOKE. Why doesn't the State agency make the list of the banks available?

Mr. DELANEY. There is a list available, but it is pretty old and I am not sure if it is a public list or one that has been pirated and passed around, but some of us do have lists of banks which are authorized to lend. But without constant updating in terms of your own experience, you are never really sure whether the banks are indeed active participants or rather registered participants and not making loans at the current time.

We have asked for that and we haven't gotten that. For the last several years our association has been very active on that issue and we would like to see that as an outcome.

Mr. COUTINHO. Senator Brooke, you asked about statistics regarding notification to the institutions of the loans and I happen to have some statistics from our institution that might prove interesting. To this point, as of October 15, we have processed 304 loan applications for a recommended value of $398,646. We have been notified of a total of 24 receipts. Now the predominance of these loans that we process is in Massachusetts. We received 4 notices from Connecticut, 1 from Massachusetts, 4 from New Jersey, 4 from New York, 1 from Pennsylvania and 10 from Rhode Island. So you can see that particularly in Massachusetts, we have a substantial problem with notification and the timeliness of the entire situation. Now, later in the year we sometimes get batches of 100 or 200 notifications which are meaningless, virtually, in the second semester.

Mr. GIBSON. Senator Brooke, I think probably if you think about it, no educational institution would really like to be in the business of lending to its students if there are other opportunities available. We don't like to be badgering our students. We don't like to affect alumni

relationships. The fact that we are in the lending business means that our students have not been able to find these loans sort of on their own out among the banks. There is a certain point beyond which we do not like to put them in the runaround. For about 2 years we had our students—we required all of our borrowers before they would borrow from Harvard, that they bring back two letters from banks, two letters of refusal from banks, either in this or other parts of the country. Even that became a difficult thing because some banks were not even willing to put their refusal in writing. So the fact that we are lending the volume that we are, is a kind of a reflection of the fact that this is not taking place in the banking community.

I am not entirely complaining about that because they have their own problems, but it is a measure of the difficulty that our students have found in obtaining loans.

PART-TIME STUDENTS USING NDSL LOANS

Senator BROOKE. How many part-time students take advantage of the NDSL loans and how does this compare with use of the program by full-time students?

Mr. DELANEY. It is hard for me to respond to that since Holy Cross is a very traditional institution and we have maybe only 30 part-time students who only take 1 course. So I can't respond to that. My impression is that we are sufficiently underfunded.

Ms. HOROWITZ. We made $212,000 of NDSL loans last year. Approximately $30,000 went to part-time students. Now, our institutional policy has been that we service full-time students first on the basis of the fact that they do not have a job to support themselves at all, and part-time students presumably come from the category of people who are trying to work and go to schools at the same time. As our funding has increased, the proportion of money to part-time students will increase, and this year the amount of money the part-time students will receive will be even greater than it was last year, not just in dollar amount but in percentage of the program.

RECESS

Senator BROOKE. Our stenographer has not had a break since 9:30 and it is now 12:30. She said she could take a lot but I don't want to put too much more on her, and yet I have many more questions of the financial aid officers. I would like to submit to you certain questions in writing and ask you if you would be kind enough to respond in writing to those questions. I really want to build a good record for the committee on this, and these questions I think are very important. If you will be kind enough to agree, our staff will submit these questions to you and if you would get them back to us as quickly as you can, it would be very helpful.

I thank you all, very much. It has been an excellent panel.

We will recess for 5 minutes and then we will hear testimony from Dr. Winer and Ms. Gold before taking a luncheon recess.

[A short recess was taken.]

INTRODUCTION OF WITNESS

Senator BROOKE. The subcommittee hearing will be in order. Our next witness is Dr. Rachel Winer, coordinator, office of private schools, State Department of Education. With the large number of private schools in Massachusetts, we look forward to Dr. Winer's message. We welcome her to our hearing. Dr. Winer, you may proceed as you see fit. Much of the testimony we have already heard is testimony which indicates that proprietary schools have a unique problem. I want to be very careful in the selection of my words. I don't want to indict proprietary schools as such. There are some very excellent proprietary schools, as I am sure you are well aware, but so far as this program is concerned, we want to get all the facts we can, so if you have a statement you wish to put in the record you may do that, and then you can go off the cuff and then I may have some questions.

PROPRIETARY CAREER SCHOOLS

STATEMENT OF RACHEL K. WINER, COORDINATOR, OFFICE OF PRIVATE SCHOOLS, DIVISION OF OCCUPATIONAL EDUCATION, DEPARTMENT OF EDUCATION, COMMONWEALTH OF MASSACHUSETTS

PROPRIETARY CAREER SCHOOLS

Dr. WINER. Senator Brooke, and members of the committee, I would like to put my statement into the record.

Senator BROOKE. Your entire statement will be placed in the record.

[The statement follows:]

In Massachusetts, the Department of Education, through the Division of Occupational Education, in the Office of Private Schools became pro-active in its approach to the educational programs offered at private career schools within the Commonwealth. Recently, we have gone through a series of exercises in lawmaking governing private career schools in order to enhance the licensing role of the department as it endeavors to protect the student/consumer.

As the recognized licensing agency for the private career schools in the Commonwealth we are in the position to prevent schools who are licensed from specifically or by implication promise students guarranteed employment, unrealistic salaries, or preparation for a career which is beyond the school's ability to perform. Our approach to career school "drop-outs" or "potential loan defaulters" was to implement a statewide information program through sundry communication channels (Student/Consumer Handbook, (Spanish and Portuguese Versions to be released shortly), Radio and TV spots in English, Spanish and Portuguese, and a 24 hour Hot Line costing a single coin ($.10) directly into the Office of Private Schools.) Our contention being that a better informed student/consumer in the educational market is a student/consumer who will seek a school in a more discriminate fashion thereby ensuring greater program completion rates and subsequent loan repayments.

Educational Specialists in the Office of Private Schools monitor and evaluate each schools programs. Monitoring may occur on a weekly, bi-weekly, monthly, or quarterly basis with an in-depth evaluation of the school, its curriculum, instructors (faculty), facilities, etc., prior to licensure renewal which occurs on a yearly basis.

The Office of Private Schools endeavors to monitor newspapers, flyers, posters, etc., which contain advertisements about private career schools that are licensed in the Commonwealth. A similar approach is utilized for radio and tv commercials in an attempt to prevent misleading information to the consumer. We seek to keep

the consumer better informed about post-secondary career education which helps to prevent defaults by developing an awareness on the part of the consumer regarding educational institutions.

Since licensure requirements in Massachusetts require minimum standards that exceed those of the Federal agencies it follows that without state licensure there would be no federal loan program involvement with a particular school. We acknowledge that there have been failures in this particular area in the past; however, in the recent past we have begun to work in a cooperative manner among the various offices and agencies in the region. We have endeavored to establish lines of communication among agencies within this area of concern; the meeting in Providence, R. I., is an example of our efforts in this area.

Also, we have established a cooperative climate with the Attorney General's Office and upon our recommendation, action against a school occurs. All of which are actions seeking to prevent defaults.

As a state licensing agency of private career schools we wish to suggest the following for consideration by your committee to prevent defaults in student loans.

1. Defaults may be prevented early. We need to better inform the Junior and Senior High School student regarding options to post-secondary education and the responsibilities through a multi-variety of mediums, i.e.: films, speakers, seminars, pamphlets, etc., on a national level.
2. There is a need for more interagency regional and federal communication/informational meetings (local, state, regional, and national). Today, the scope is too large for each of us to be operating as separate entities since this only creates fragmentation and duplication of processes, procedures, and effort. We need to develop better links among the agencies involved in order for each of us to become more efficient in the prevention of student loan defaults.

3. There is a need for sufficient staff (local, state, regional, and national) to provide better prevention protection to the consumer.
4. We need to do things before we are forced to do them. In Massachusetts we were forced and the schools are complying or they are no longer operating.
5. Only by informing and better preparing the student/consumer to the realities of post-secondary education with a clear understanding of the financial obligation which is accrued in seeking this education will we meaningfully reduce the number of failures, hence loan defaulters. We need more and better communication.

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LICENSING OF STATE PRIVATE CAREER SCHOOLS

Senator BROOKE. Do you wish to make any further statement, or will you stand on that statement?

Dr. WINER. I will stand on that statement.

Senator BROOKE. Fine. So that we are clear on this, is your involvement in student loans to license the proprietary schools?

Dr. WINER. The Department of Education is the licensing agency for private career schools in Massachusetts.

Senator BROOKE. Could you give us a brief example of that whole process, including the questions you ask before a school is approved?

Dr. WINER. We have a very detailed application form. We require a financial statement which is approvable by the State auditor's office. We require of business schools a $25,000 bond in order to insure tuition. We require an in-depth evaluation by specialists in the department of a school's facilities, instructors, and their programs. It is a rather lengthy process. There are particular forms for business schools, correspondence, and trade schools.

Senator BROOKE. Will you submit those forms for the record?

Dr. WINER. I don't have them with me but I will be glad to see that you get them.

Senator BROOKE. And if the process is in written form, would you also submit that?

Dr. WINER. Yes; I will be glad to.

DEFAULT RATE OF PROPRIETARY SCHOOLS

Senator BROOKE. As has been said, on a national basis proprietary schools account for about 60 percent of the default. How does that compare with proprietary schools in the Commonwealth of Massachusetts?

Dr. WINER. Insofar as we are aware, the proprietary schools in the Commonwealth of Massachusetts don't come anywhere near that percentage figure. The record in Massachusetts appears to be considerably less. I am not sure of the exact figures at this time. I did not take those with me.

Senator BROOKE. I would like it to be more exact than that. You say "considerably less"—are we talking about 50 percent, 40 percent, 20 percent, 5 percent?

Dr. WINER. I wouldn't be able to give that figure. I am not knowledgable about that.

Senator BROOKE. Well, do you have any data in your office that would help in this regard?

Dr. WINER. I would be glad to send that.

Senator BROOKE. Would you do that, please? You said, "insofar as you are aware," what sort of reporting requirements are there as far as defaults from proprietary schools?

Dr. WINER. We require every school to provide us, prior to license renewal, with a list of their student enrollment and attrition rate, and their rationale for attrition or dropouts. This is part of the record of each school.

Senator BROOKE. So you would know prior to the renewal of the next year how many defaults they had in the previous year?

Dr. WINER. The number or rates of attrition.

Senator BROOKE. Oh, rates of attrition. I misunderstood you. To the degree that you can give us that information, would you supply that for the record also?

Dr. WINER. Yes; I would be glad to do that.

STUDENT ENROLLMENTS

Senator BROOKE. What proportion of students are enrolled in the schools you work with?

Dr. WINER. We judge approximately 40,000 students are enrolled in private career schools in the Commonwealth.

Senator BROOKE. Under your jurisdiction, 40,000 students?

Dr. WINER. Well, there are some private career schools in the Commonwealth that we are not responsible for, but as a general statement put out by the Massachusetts Association of Trade and Technical Schools and Business Associations, approximately 40,000 students in Massachusetts are enrolled either in a single program or in a career program in private schools in the Commonwealth.

Senator BROOKE. I think the State enrollment is about 300,000, and you say only 40,000 of those are in proprietary schools?

Dr. WINER. Private career schools.

Senator BROOKE. Who has jurisdiction of others that you don't?

Dr. WINER. The law, the statute in regard to private schools in the Commonwealth, is very specific as to what schools we have jurisdiction over, and the laws dealing with the trade schools and the kinds of trades, refer to chapter 93(a), and the law dealing with private business schools and such related schools, chapter 75(d), and they are very specific as to what schools we are able to oversee and license.

Senator BROOKE. If you repeatedly hear of problems with a particular school, do you ever conduct another review of that school?

Dr. WINER. Immediately.

Senator BROOKE. What sort of followup do you do to keep problems to a minimum?

MONITORING OF SCHOOLS FOR TROUBLE SPOTS

Dr. WINER. We monitor most schools that we license on a weekly, biweekly, monthly, or quarterly basis, and we do an in-depth evaluation on every school that is to be licensed within 60 days prior to license renewal.

Senator BROOKE. What sort of staff do you have to do this?

Dr. WINER. We have five specialists and we have consultants that we are able to request for monitoring and evaluation.

Senator BROOKE. And how many schools are they concerned with?

Dr. WINER. Approximately 100 schools in the Commonwealth.

Senator BROOKE. And you have only five members of your staff, plus consultants that you call in periodically, I take it?

Dr. WINER. That is correct.

Senator BROOKE. To service these 100-some schools?

Dr. WINER. One of the things I asked for in my suggestions is additional funds to enlarge my staff.

PERSONNEL CUTBACKS

Senator BROOKE. Were you cut back recently by the Governor in his austerity program?

Dr. WINER. Yes, we were

Senator BROOKE. From what to what?

Dr. WINER. From a slot of nine to a slot of five.

Senator BROOKE. Do you have any communications with members—in other words, do you seek feedback from those who are affected if defaults occur frequently?

Dr. WINER. Yes, we do. We have sort of an off the cuff information communication system that we have established as a result of a particular meeting that occurred in the Providence area, that was a regional meeting based on supervisors and other State agencies, lenders, and the Federal people who are involved in the student guaranteed loans and other such loans. We established a very good rapport, so that we are able now to call each other on the telephone in order to inquire when we have rather frequent complaints or problems about schools.

COMMUNICATIONS CHANNEL WITH STATE ATTORNEY GENERAL

Senator BROOKE. Do you maintain a channel of communication with the Attorney General's office?

Dr. WINER. Very, very definitely. We have an excellent rapport with the Attorney General's office and are in constant communication with him and find his services to be invaluable.

Senator BROOKE. Now, you have heard the allegations about some proprietary schools, that they just get the paper and students really do not matriculate—have you found any such cases in Massachusetts?

Dr. WINER. We admit there have been some errors made, but we are certainly working very hard to eliminate them.

LAW VIOLATIONS AND FRAUD

Senator BROOKE. I am talking about more than just errors. There are errors in almost any kind of a program. But I am talking about outright violations of law, fraud, for example. Do you understand fraud?

Dr. WINER. Very well, sir.

Senator BROOKE. Have you in your capacity as director come across any cases of outright fraud?

Dr. WINER. No, sir.

Senator BROOKE. Or the improper use of Federal funds in this program?

Dr. WINER. No, sir.

Senator BROOKE. Do you conduct a thorough investigation that would determine whether there was improper use of Federal funds in this program?

Dr. WINER. Yes, sir.

Senator BROOKE. And it is done with your five staff assistants, or previously nine staff assistants?

Dr. WINER. Yes, sir.

Senator BROOKE. And you know of no case in which there has been an improper use of Federal funds in the student loan program in any proprietary school in Massachusetts?

Dr. WINER. Not since I have taken office.

Senator BROOKE. Do you know of some prior to that time?

Dr. WINER. I read of some in the Boston Globe.

Senator BROOKE. Has that situation been corrected?

Dr. WINER. Insofar as I know, sir, yes.

Senator BROOKE. Have you had occasion to report any cases, specific cases, to the office of the Attorney General since you have been director?

Dr. WINER. Yes.

Senator BROOKE. How many cases have you reported?

Dr. WINER. I don't have my records in front of me, but I would make a judgment of at least six or seven.

Senator BROOKE. And what has resulted in those cases? Have there been any prosecutions, to your knowledge?

Dr. WINER. Insofar as I am able to recall at this time, some schools have been required to repay the students and have been closed.

Senator BROOKE. So you have withdrawn the licenses?

Dr. WINER. Yes, we have.

Senator BROOKE. And of those six cases, none of them involved fraud or misuse of Federal funds?

Dr. WINER. Insofar as I have been able to determine, no, sir.

Senator BROOKE. Of the six cases, what was the basis for reporting those cases to the Attorney General's Office?

Dr. WINER. Lack of proper facilities, lack of proper instruction, complaints by students that they were not getting proper instructions, and the subsequent monitoring and evaluation of the schools in regard to what they promised the student and what they were offering.

ITT TECHNICAL INSTITUTION FRAUD CASE

Senator BROOKE. Now, you have one institution, ITT Technical Institution, that is listed here by HEW as showing 201 defaults, covering $229,000. Have you looked into that case?

Dr. WINER. Very definitely.

Senator BROOKE. What are your findings?

Dr. WINER. ITT Technical in the Boston office is closing down its operations. The case for ITT Technical in its previous operation, prior to February of this year, is in the Office of the Attorney General. The ITT Technical School in the Chelsea area is only licensed to operate a single program, auto mechanics.

ELECTRONIC COMPUTER PROGRAMING SCHOOL

Senator BROOKE. Electronic Computer Programing?

Dr. WINER. That school is out of business.

Senator BROOKE. As of what date?

Dr. WINER. Some time in 1974.

Senator BROOKE. The defaults amount to $110,000 there. How did that happen to go out of operation?

Dr. WINER. That was one of the schools that was cited in the Globe Spotlight, and there was subsequent judgment and action by the

Department of Education and the attorney general's office. The school is now out of business, and the attorney general's office has a case pending against that school.

STATE RESPONSIBILITY TO DISCOVER FRAUD CASES

Senator BROOKE. Well, we have to wait for the Globe Spotlight Team to find this? What about the State's responsibility in this area?

Dr. WINER. The State has since assumed its responsibilities, sir.

Senator BROOKE. Prior to this time they had not assumed their responsibilities?

Dr. WINER. I don't know. I was not there, sir.

Senator BROOKE. But there has been a change in your office, is that correct?

Dr. WINER. A marked change, sir.

Senator BROOKE. And you are very zealously protecting Federal funds as far as the student loan program is concerned?

Dr. WINER. Most definitely, sir.

Senator BROOKE. And you think that you have taken the proper precautions that will protect us against another ITT Technical Institute type of case?

Dr. WINER. Very definitely.

Senator BROOKE. It can't happen again in Massachusetts?

Dr. WINER. No way, sir.

Senator BROOKE. I am glad to hear that. I hope you are absolutely right, Dr. Winer.

BOOKLET ON STATE PRIVATE EDUCATION PROGRAMS

Dr. WINER. May I bring to your attention a booklet that we have recently published. The Spanish and Portuguese version will be forthcoming in the next 6 weeks. I have several charts with me which I won't show you. We have developed TV and radio spots that will be in English, Spanish and Portuguese, that will blanket the State in order to develop more awareness and better educate the consumer on private career schools and educational institutions throughout the State.

Senator BROOKE. This pamphlet and the charts will be made a part of the record, Dr. Winer, and I am very pleased to have your assurance that what has been a pretty bad situation has now been improved and you feel that you have put in sufficient safeguards to protect us in the future.

Dr. WINER. I feel that way, sir.

Senator BROOKE. I am happy to hear you say that. Thank you very much.

Now we will have as our next witness, Paula Gold, division director, office of the assistant attorney general, who works in the area of consumer protection. All of the students who get loans to finance their education are consumers. We hope Miss Gold will be able to shed light on the problems they may be having as well as other problems associated with the federally insured student loan program.

CONSUMER PROTECTION DIVISION

STATEMENT OF PAULA GOLD, ESQ., CHIEF OF THE CONSUMER PROTECTION DIVISION OF THE OFFICE OF THE ATTORNEY GENERAL OF THE COMMONWEALTH OF MASSACHUSETTS

ACCOMPANIED BY RICHARD GROSS, ASSISTANT ATTORNEY GENERAL, CONSUMER PROTECTION DIVISION

Senator BROOKE. Miss Gold, we are really running out of time. You have a prepared statement?

Ms. GOLD. Yes. I would, however, like to read it because it does summarize the activity of the attorney general's office in this area and bears directly on the questions you asked before.

Senator BROOKE. You may proceed, Ms. Gold.

LOAN STATUS AFTER SCHOOL CLOSINGS

Ms. GOLD. I would like to add at this point, something I think is relevant to what you had asked a prior witness. We don't take the position in the attorney general's office that when a school closes, that's the end of it. We are actively pursuing people who have recently closed in Massachusetts to get money for the Federal Government, not because necessarily we view our job as getting money for the Federal Government, but we want these students released from their obligations, and in conjunction with this, we have recently requested the Federal Government join us in these suits, and we were unsuccessful in getting the Federal Government to join us in this suit, initially anyway.

We then filed a motion to have them named as party plaintiffs, though I will tell you we considered filing a motion to have them named as party defendants. It was unclear to us whether or not they had really failed in their responsibility and should have been defendants. Recently we have learned that the Federal Government will join with us in one of the lawsuits that I am talking about, and I think this is very important. To keep going after students who really have been defrauded because they have taken courses of education which were of no value and expect them to pay for it, is going after the wrong source. Also it is not in keeping with the deep pocket theory of litigation. Some of these schools may have substantial amounts of money, and so I just wanted to point out that, in our view, when a school closes, that is not the end of the issue. The issue remains because the students have contracted and have outstanding indebtedness.

CERTIFICATION OF PROPRIETARY SCHOOLS

Senator BROOKE. Thank you, Ms. Gold, for a very excellent statement. One question comes to mind. Why is it not the responsibility of the office of private schools, State Department of Education, to better certify these proprietary schools?

Ms. GOLD. I think that is another area in terms of certification. A number of these schools are national schools and because the FISL program is a Federal program, I think the Federal Government shares

the responsibility. You also heard about the staff that exists in terms of Massachusetts and the job that is necessary in terms of certification. I suspect that it might be possible also for the State Department to require that kind of information and look for it as well, but some of this is a national pattern. A number of the schools we have dealt with have schools throughout the country and therefore there may be a role for the State, but there certainly is a role for the Federal Government.

Senator BROOKE. I think it is a joint responsibility, but I certainly think the State has the prime responsibility since they are the licensing agency here. I mean, they are the ones who determine whether license should be given. They are the ones who determine whether license should be revoked, if the school should be closed. They have pretty broad powers. You come in after the fact, and you don't have that primary responsibility of looking at these schools, but they do. They are the ones that have to safeguard us. I was glad to hear what Dr. Winer said, but as you very well know, we wouldn't have that many violations if in the past this had been done.

FLY-BY-NIGHT SCHOOLS

You get a lot of fly-by-night schools. I remember years ago, probably you don't remember, but I served as attorney general in this Commonwealth and we had dance schools that came through here. They opened up and we found out they were literally fleecing people of thousands and thousands of dollars, particularly elderly widows, and then you would get on them and they would close their doors and leave town. We were sometimes powerless to do anything about it. I am just wondering if we can't prevent, as well as having the attorney general come in. And incidentally, I want to commend you, and through you, Attorney General Bellotti, on the positive action you have taken on this. This will certainly act as a deterrent to many of these schools and I hope you will transmit my commendation to the attorney general for the good work being done in this regard.

You know, we keep getting allegations, but that is not the whole answer by any means to our problems with the student loan program. Here in Massachusetts, taking the figures we have, 40,000 out of 300,000 in these private proprietary schools, that is a sizable amount and important, to be sure. But people will grasp that right away. They'll say, "Well, that money is going right down the drain. These schools are opening up just to get the Federal dollars and the students are getting nothing." The injury really is to that which is done to the student.

I am glad you put the emphasis in the right place. It is pretty tough to have to pay back a student loan—in today's job market anyway. The unemployment rate in Massachusetts I think is about 13 or 13.1 percent at the present time, and climbing. It is very difficult for students even from the best institutions to get a job, and then to require the student who has received really no education to pay off the loan—well, that can be too much to bear.

I take it, then, that it will be the policy of your office to prosecute wherever there are violations of State law, or as in this instance, Federal law?

Ms. GOLD. Absolutely.

Senator BROOKE. You will prosecute them, and as I said, once the word gets around that Massachusetts is not a haven for these fly-by-night schools—and I hope that this will be true in other States throughout the Nation—perhaps this will act as a deterrent.

I don't know that there are any more questions that I want to ask you. I think you have covered the ground very well, but there may be some and if so, I will submit them to you in writing and have you answer them for the record.

Ms. GOLD. That would be fine. We will be happy to do that.

SUBCOMMITTEE RECESS

Senator BROOKE. Thank you very much for your testimony.

The subcommittee will stand in recess until 1:45 p.m. and at that time we will proceed further. Thank you.

[Whereupon, at 1:15 p.m. the subcommittee was recessed, to reconvene at 1:45 p.m. the same day.]

(AFTERNOON SESSION, 1:45 O'CLOCK, FRIDAY, OCTOBER 17, 1975)

STUDENT LOAN PROGRAMS

DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE

STAFF WITNESSES, REGION ONE

STATEMENT OF PANEL, REGIONAL STAFF OF DEPARTMENT OF HEALTH, EDUCATION, AND WELFARE:
WILLIAM T. LOGAN, JR., REGIONAL COMMISSIONER OF EDUCATION FOR REGION I
THOMAS O'HARE, ASSISTANT REGIONAL COMMISSIONER, DIVISION OF GUARANTEED STUDENT LOAN PROGRAM
CHARLES BECHTOLD, SENIOR PROGRAM OFFICER, DIVISION OF POSTSECONDARY EDUCATION AND RESPONSIBLE FOR STUDENT FINANCIAL AID PROGRAMS

INTRODUCTION OF WITNESSES

Senator BROOKE. The subcommittee hearing will come to order. Next we have regional staff of the Department of Health, Education, and Welfare. The Federal witnesses are William Logan, regional commissioner of the U.S. Office of Education; Dr. Richard McCann, his deputy; Thomas O'Hare, assistant regional commissioner; and Charles Bechtold, who is responsible for the direct student loan program in this region.

Mr. LOGAN. Thank you very much, sir. I have a prepared statement which I have submitted to your staff, and I would like to talk from it.

Senator BROOKE. I wish you would do that, and I am going to ask all witnesses to do that because we do have to push on today and I would like to get to some questions.

OPERATION OF STATE OFFICE OF EDUCATION

Mr. LOGAN. It appeared that you were concerned with the operation of our program in Massachusetts primarily, and I think it has to be understood that in Massachusetts we deal with commercial lenders, savings and loan associations, mutual savings banks, credit unions, and we have some public and private proprietary institutions of post-secondary education makes loans to qualified students. Our office, the U.S. Office of Education, guarantees repayment to these lenders either directly or through reinsurance of the State guarantee agency which is the Massachusetts Higher Education Assistance Corp. in this case. The majority of the loans in the Commonwealth are guaranteed by the State agency and there are 20 other lenders, primarily colleges and universities, whose loans we guarantee directly from this regional office.

Because Mr. Cosgrove, the executive director and treasurer, will testify next I will allow him to talk about the operation of the State agency and I will now confine my remarks to the operation of our program with direct Federal lenders.

Since the first university in Massachusetts became involved—that was Harvard in 1972—$26,650,000 has been loaned to 19,850 students, who normally do not qualify for assistance under the State guarantee program, that being residency. To date, we have processed no defaults and we have had only three death claims and one bankruptcy claim for a total volume of $9,283. We realize that not much of this paper will be maturing. The participation has been relatively short time, but we have targeted our efforts as these people have come into our program on default prevention and we hope this low rate will prevail.

PROPRIETARY VOCATIONAL AND CORRESPONDENCE SCHOOLS

Unlike the record cited above, our experience with proprietary vocational and correspondence schools operating in this State has been far from exemplary. Because loans to students attending these types of institutions may be made outside of this State and this regional office's jurisdiction, we have no current, accurate, presently retrievable data at our office on the number of loans made. However, on October 15 a remote terminal for our automated data processing system has been installed and we hope this will rectify this problem of accessibility of data. So without exact knowledge as to the number of loans made, we have, however, processed 254 claims and have recommended payment of 139 of these for a dollar value of $117,174.

Of the 254 claims submitted, 89 have come from 3 lenders serving students at 1 correspondence school—the Lafayette Academy in North Providence, R.I.; 95 claims are on hold status due to investigations concerned with the operation of two branches of Electronic Computer Programing Institute which ceased operation in Boston and Worcester, and I was pleased to hear Paula Gold's testimony and you have heard that we have been able in this region to have cooperation between the State attorney general's office and this office, and we have in fact, as she recommended, at this office originated the policy that we would not go after defaulters when the school itself was in litigation. We think that is a sound policy and agree with it.

The balance of the 70 claims come from lenders in the State of Vermont. Our office is currently charged with the responsibility of reclaiming for the U.S. Government, a dollar volume of $1,542,000 from 1,903 individuals. This represents notes owed to the U.S. Office of Education as a result of paying off lenders.

These case files have been assigned to the regional office on the basis of the last known residence of the defaulter whose loans originated throughout the United States; 940 of these defaults were made by students attending 4 proprietary institutions: Bell & Howell Schools, International Telephone & Telegraph Technical Institute, Control Data Institute, and Electronic Computer Programing Institute. An additional 20 percent or about 380 defaulters were originated by students enrolled in other proprietary and correspondence schools. The

balance of the files come from attenders of public and private nonprofit institutions.

We have welcomed your recent congressional actions to strengthen our regulatory powers, especially in the area of limitations, suspensions, and terminations of institutions with compliance problems, once again repeating what Paula Gold has said. We are very thankful and we have used these authorities to increase the viability and effectiveness of the program.

EMPHASIS ON DEFAULT PREVENTION

Similarly, our emphasis for the past 2 years has been on default prevention when our regional staff was increased from one professional employee and a part-time secretary to our current staff of six professionals and four support staff. But as we should render service to over 1,900 lenders and 719 postsecondary institutions, we have difficulty completing 1 institutional review with each entity even once in every 4 years. It must be obvious that most of these institutions have never been visited by a member of our guaranteed loan program staff. Although our challenge is monumental, we are appreciative of past congressional support which provided the eight additional staff members since 1974.

NATIONAL DIRECT STUDENT LOAN (NDSL) PROGRAM

The other Office of Education sponsored loan program is the national direct student loan. The national direct student loan program started with the Education Amendments of 1972 and is a continuation of the old National Defense Education Act of 1958 as amended.

The national direct student loan provides low-interest loans to students with the eligible institutions of higher education acting as the lender instead of a commercial loan organization. The other differences from the guaranteed student loan program are: a needs analysis is required for all students, the loan maximums differ and provisions exist for teacher and military cancellation. The interest is 3 percent versus 7 percent and there is no guarantee charged, no fee charged. Finally, and this is a problem, there is no provision in the language of the national direct student loan law for defaults. The loans are classified as delinquent.

When the Federal Government became involved in the national defense student loan and provided the schools with money for loans there was no real understanding by the schools of the requirements of being a lender, particularly as it applies to due diligence in its billing and collection of loans.

It was not until after approximately 5 years of the operation that the emphasis was placed by the Office of Education on due diligence. Some schools had been in the program since its inception and had built up a backlog of old uncollected loans. Because there are no defaults, many of the loans are still carried with interest accruing. Another problem that makes the national defense student loan billing and collection look adverse is the delay caused by the paperwork for processing cancellations and deferments.

MEETINGS AND WORKSHOPS USED TO HELP PREVENT DEFAULT

We are attacking the problem of delinquency by onsite monitoring with the constraints caused by limited staff—there are only 3 professionals to handle the 1,294 programs of student financial aid. We also held three, 3-day workshops in the region, co-sponsored by the National Association of College and University Business Officers, which have been extremely successful.

Senator BROOKE. What groups were present at that meeting?

Mr. LOGAN. Charles, can you answer that?

Mr. BECHTOLD. Our last meeting was at the Copley Plaza. About 490 people from throughout Region One, and some from the New York region were present. It involved principally fiscal and business officers of the postsecondary schools. There were a few financial aid officers, but mostly business officers, those who had the responsibility for collection. Now, in addition to that, there were representatives of banks and lending institutions involved in the guaranteed insured loan program.

Senator BROOKE. Do you sponsor any sort of a seminar or meeting whereby you do invite bankers and financial aid officers to attend?

Mr. BECHTOLD. The State financial aid offices have sponsored or endeavored to sponsor some meetings jointly with bankers and financial aid people to get a higher degree of cooperation. I know in the past when I was with the insured loan program I have seen Mr. Cosgrove and also Mr. Holst when I was subsequently out of it, at those meetings and participating very avidly with financial aid personnel.

IMPROVED COMMUNICATIONS WITH LOAN OFFICIALS

Senator BROOKE. Some of the testimony we had earlier today would indicate kind of a lack of cooperation or lack of communication between the regional officials, the banking institutions concerned, and the financial aid officers. I was wondering if anything was being done to correct that?

Mr. BECHTOLD. Let me say this much, there is a constant argument going on between those that are involved in the fiscal field and the financial aid field, not only in the commercial lending area but also within the institutions of postsecondary education themselves, as to who will take care of certain functions as it applies to their own field and other aspects of the financial aid. There are many attempts, however, to bring the two parties together and this is one of the things we have had to do in the campus based program, is to have the fiscal office work very closely with the financial aid program people. I can't speak so much on the banking end of it as perhaps Tom O'Hare can.

Senator BROOKE. Mr. O'Hare?

Mr. O'HARE. There are 411 banks that are currently involved with the guaranteed loan program in Massachusetts. Now, where Massachusetts is a State guarantee agency-type State, we cooperate with the State agency in meetings, workshops, et cetera. The last group of meetings that we held were 2 years ago when the regulations were changed on the affidavit, and the introduction of the form 1260, which

is a supplemental form. We did hold across the State, under the leadership of four major banks, meetings with area banks. Invitations were sent out to all of the loan officers, the commercial loan officers handling the guaranteed loan programs in those banks, and they were given the option to come and the attendance was excellent.

Senator BROOKE. Four hundred and eleven banks are presently in the program. Is this an increase over the previous year, or is that a decrease?

Mr. O'HARE. Let me just clarify that. Of course, Mr. Cosgrove and Mr. Holst can add to that. There are branch banks in Massachusetts. These represent primarily the main banks. There are several other branch banks that are also involved, so that figure would be increased probably by 100 or 200 banks.

I would say it is an increase, or a slight increase. I would have to compare that with previous printouts we have had.

CHANGES IN BANKS INVOLVED IN LENDING PROGRAMS

Senator BROOKE. There was testimony this morning that some of the banks want to get out of it or have gotten out of it. Are they being replaced with others who are getting into it for the first time?

Mr. O'HARE. I think Commissioner Logan can probably answer that better than I.

Mr. LOGAN. Senator, we have found that, as we have said, we did not render the kind of technical assistance to the banking community over the past few years, and our efforts have been on due diligence. Also, in those cases where our lender examiners have worked with banks, we have found that the original officer of the bank that was trained for the program may or may not hold that position today. He trained the next person, and he trained the next person. We find out that they have not kept current, that they were not collecting what was allowable, and we find that probably four out of five cases, the bank, when it found out the interest rate to which it is eligible with other benefits, find out that it in fact is an attractive type of loan, that it is not the deficit type they had felt it was. So the more times we have been able to service a bank, the better it has been in holding them into the program. If we have had an opportunity to work with the bank and show that this is good business, then we have been able to hold them. So there were two problems—one, default prevention and, two, holding lending institutions in the progrm.

Mr. O'HARE. I would like to just add to that. With the advent of two lender examiners that we now have on our staff, and that happened after January of 1974—so we are just recently into that kind of activity, and we should have been involved years ago when the first bank became involved in the program—the two lender examiners that I have, have visited I believe 116 banks in Massachusetts since 1974. I have gone along on several of those visits and it is rather an interesting kind of visit in that, as Commissioner Logan says, you are talking to a person in many instances who has been replaced seven times over by individuals who have never seen a Federal officer or individual, who have been dealing directly with our office in Washington on a statistical gathering kind of sampling type thing.

Since these two men have been working we have been able to recover—I don't have the exact figure, but of the Massachusetts banks alone, a sizable amount of interest that was billed improperly. We have developed excellent rapport with these banks so that when they now have problems they are asking our services to come and visit and correct situations. That never happened prior to 1974 with myself attempting to run a program that had approximately 1,938 lenders throughout New England and approximately 719 institutions. It was just physically impossible to contain that kind of a program.

Senator BROOKE. Thank you. Mr. Logan, would you like to finish your statement?

NEW FORMULA FOR DETERMINING DELINQUENCY

Mr. LOGAN. Well, we are just pointing out the fact that we have just revised a new formula for delinquency determination, and it rests on the relationship between the number of accounts repaying and the number not repaying. We are developing a regional study at this time. From the inception of the program to the end of fiscal 1974, $130,180,000 has been loaned to 130,425 students.

The cumulative principal amount past due is $4,049,879 out of a total amount due and collectable of $37,358,711. The delinquency rate for Massachusetts is 10.8 percent, and this is higher than the nationwide average of 9.9 percent because many of the schools, many of the schools here in Massachusetts, entered the program at its inception and because they did not perform proper due diligence, therefore created a base of old loans.

With the advent of the new tripartite application for developing a better grasp on the needy student, the funding in Region One and Massachusetts increased to the point where we are able to meet approximately 40 percent of the demand upon current appropriations.

PRECLAIM ASSISTANCE TO LENDERS

Senator BROOKE. Thank you, Mr. Logan. What sort of preclaim assistance do you provide lenders who are having trouble with federally insured student loans? When they have problems, how quickly and in what way do you respond?

Mr. O'HARE. At the present time we have 17 universities and colleges that are Federal lenders in Massachusetts, and there are 4 banks. The four banks are dealing primarily with the correspondence school, Lafayette Academy, in Providence, Rhode Island. As far as preclaim assistance, we have been performing it by the limited staff that we have, and we have recently received an allocation to hire a full-time claim examiner. We are currently operating under a part-time examiner who has been assisting any claimant, any bank that sends, or any institution that sends a claim to us, we have been assisting those lenders in getting in the proper forms, et cetera, to submit that claim for payment.

Now, understanding that we have not had a great number of claims submitted to us, prior to a year ago all claims were submitted to our Washington office and they were paid through our Washington office.

At that time there was no claim assistance performed whatsoever. So by regionalizing, by allowing the regional offices to become involved in this, we are better able to handle that problem.

LACK OF COOPERATION FROM REGIONAL OFFICES

Senator BROOKE. One of the common criticisms of regional offices around the country is that they do not respond to members or guarantee agencies in their questions and their requests. How would you reply to this criticism?

Mr. O'HARE. I can reply in relationship to our region. We are able to examine a claim within a week and make a recommendation, as we have made on the number of figures that have been given to you. We have submitted those to Washington for payment.

At the present time, a number of those claims that we have in the regional office are involved in a situation with one school that is no longer operating in Massachusetts, which happens to be ECCI. We have probably the bulk of our claims belonging to that school. Because we have entered into an agreement with the attorney general's office and because HEW General Counsel has given us permission to go with the attorney general's office, we will not honor or pay those claims. This will be a pattern which will be followed throughout the regional offices, I think.

I think that other than our Atlanta office—and I can't speak specifically for the other regions—but those that I know that are working with outside agencies, I think primarily all of the regions are now working with the attorney general staffs in their respective States, because they see this as a viable way, and as the Federal arm of the program we cannot police the activity without the assistance of the attorney general offices.

RESPONSIBILITY OF DISTRICT U.S. ATTORNEY IN CLAIMS CASES

Senator BROOKE. Does the U.S. attorney for a district have any part at all in these claims? Do you send over anything to the U.S. attorney?

Mr. LOGAN. Senator, we had asked—and I think we are kind of a forerunner in this because of the willingness and cooperation on the part of the Regional GAO office and the U.S. attorney's office, Department of Justice—our original policy or system was that we submitted these claims to our central office, to GAO, to Justice, for action. Now that is a long time. We found there was a willingness on the part of the Regional Office of GAO to process there and we could go directly to Justice. At this time, two of our regional offices are on pilot programs. We do not happen to be one. We have been asked to pilot something else.

But there has been that long delay, you see, between processing at headquarters, turning by GAO over to Justice and then to come back and deal with somebody, and turn back and deal with somebody in, say, northern Vermont, or something of that sort. There has been that delay.

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I also would like to react to this business of our office responding. We are blessed by geography, of being very, very close to most of our clients. As we developed our requests for travel and so forth, we look at how many day trips can we take. We find that within a radius of 60 miles of this office, we can hit most of our major institutions and a great bulk, probably half, of our lenders are within an hour of this office. We plan our trips and our men, when they go to northern Maine, we make sure they hit Bangor, and that sort of thing. So the fact that we are close to our clients, very close geographically, and we do not have to spend a great deal of time traveling to and from, our men can see more than perhaps in another regional office where it is a 2-day trip to make a 1-day call. I think the proximity has been very helpful to us in terms of response and they feel perfectly free to call, so I think we respond on that basis.

ANDOVER BUSINESS SCHOOL CASE

Mr. O'HARE. Could I add, Senator, we have one situation where we are working with the U.S. attorney here in Boston. This happened to be a proprietary school—Andover Business School—that was written up by the Globe spotlight team in the early stages of our investigation. When I found that there were problems with that school, we turned it over to the Investigation Security Department within HEW and it was upon investigation by that organization that subsequently brought the case to the U.S. attorney's office.

It is currently in the U.S. attorney's office, almost 3 years after the fact. There are some 12 cases that are ahead of this, prior to being presented to the court. Now, one of the problems that stems from our current regulations—it gets into our current regulations, which are excellent—they really lack the kind of criminal code in some instances that we should recognize as helpmates in this kind of a program. One of the problems that we face is the deliberation of intent, and there are literally no coverages in any form or affidavit that we are using that dispels that question of intent, and I think this is an area that would strengthen, really strengthen, our program. If we could spell out in detail what we mean, not the usual kind of "penalty of $10,000 and 5-year" type thing. If we could spell out in detail on every affidavit what is meant by violation; what the violation would mean to an owner of a school; what the violation would mean to a student—so that there would be no question. Then the U.S. attorney, I am sure, would be more apt to take these cases than they are now, of handling a $1,500 violation in a U.S. court where naturally they are reluctant to do that kind of thing. I think this is one of the problems at this time. Strengthening our regulations has been an excellent thing. We needed that kind of thing. We have to be very careful in using that authority, but I think now we are on the threshold of seeing if we can strengthen that by changing our forms. Basically, it would accomplish a great deal.

DEFAULT RATE COMPARISON OF STATES WITHIN REGION I

Senator BROOKE. How does the default rate of all guaranteed loans in Massachusetts compare with the rates in other States in this region?

Mr. O'HARE. I can give you the default rates in every State but Massachusetts. Mr. Cosgrove, I am sure, will give you that. I did this yesterday so statistically I hope that I and my colleagues are correct. Connecticut had a reported default rate of 6.5 percent; Maine has a default rate of 4.5 percent; New Hampshire has 4.1 percent; Rhode Island has 6.7 percent; Vermont has 4.1 percent.

Senator BROOKE. Mr. Cosgrove, out of turn, what is the Massachusetts rate?

Mr. COSGROVE. Our present default rate is between 5 and 6 percent.

Senator BROOKE. So 6 percent is about the highest in the region—or 6.5 is the highest.

Mr. O'HARE. It was 6.7 in Rhode Island.

Mr. COSGROVE. Senator, may I ask a question out of turn?

Senator BROOKE. Certainly.

Mr. COSGROVE. Tom, were those default rates you were giving for the Federal program in those States or the State program?

Mr. O'HARE. The guarantee agency. Our default rate on the Federal program, we have no way of measuring that at this point, but getting the information out of the computer system will assist us in that area.

UNMET STUDENT DEMAND FOR LOANS

Senator BROOKE. Mr. O'Hare, have you made any kind of check as to unmet student demand for loans, and if so, what have you found?

Mr. O'HARE. Gar asked me to gather that information. I have spent a week trying to get information. Now, the only way that I know that we could do it, and the method that we attempted to do it in, and we were unsuccessful, was to find out from the State department of education how many students were college bound or postsecondary bound, say, in June. They found it impossible to give us an accurate figure.

The only way that I would know to gather that information would be to go by institution, and we did not have time to do that.

Senator BROOKE. If you can, would you do that and submit it for the record?

Mr. O'HARE. We will.

Senator BROOKE. I have other questions, but in the interests of time and the witnesses that are here, I will submit them to you in writing and ask you to submit them for the record. Thank you all very much.

[The information follows:]

Massachusetts
HIGHER EDUCATION ASSISTANCE
CORPORATION

Higher Education Loan Plan

October 20, 1975

Subject: Data On MHEAC HELP Program

Dear Senator Brooke,

During the testimony before the Senate Appropriations Committee on October 17, 1975 you requested a variety of information regarding the HELP Guaranteed Student Loan Program in Massachusetts administered by our agency. The data requested is enclosed.

As Mr. Cosgrove reported in his testimony, the HELP program has been in operation since 1956. During this time it has produced 224,957 loans with a value of $242,850,925. $86,957,864 has been repaid and $155,893,061 is outstanding. In the last three years the loan volume has been as follows:

	Number of Loans	Value of Loans
1972	22,151	$25,548,113
1973	22,649	$29,716,864
1974	24,968	$35,597,041

Attached are analyses of the distribution of loans by sex, income and academic year.

We are convinced from our daily experience that there is no discrimination being practised in the operation of this program. Furthermore there is good evidence that loans are in fact available to applicants who have no established accounts with banks and to those with little or no balances in such accounts as the families may have. The statistics provide solid basis for this conclusion.

Also enclosed is a complete list of all lenders in Massachusetts who cooperate in this program. Included also is a list of the participating Boston banks. We regularly provide this second type of information where needed. As you will note from the introductory statement to the complete list, participation in the HELP program is voluntary. An applicant cannot demand a loan but all participants have agreed to make loans without discrimination and in accordance with the rules of the program.

Sincerely,

Helge Holst
President

Joseph F. Cosgrove
Treasurer

MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORPORATION

HELP LOAN DISTRIBUTION

Distribution By Sex

All loans from December 1, 1969 to August 31, 1975

	Number	Percentage
Male	81,466	61%
Female	53,259	39%
	134,725	100%

Distribution By Income

All loans from April 1, 1970 to August 31, 1975

Adjusted Family Income	Number	Percentage
Less than $ 1,000	6,986	5.3%
$ 1,000 - 3,000	11,066	8.4%
3,000 - 5,000	13,222	10.0%
5,000 - 7,000	16,219	12.3%
7,000 - 9,000	18,202	13.8%
9,000 - 12,000	27,884	21.2%
12,000 - 15,000	22,482	17.1%
15,000 or over	15,685	11.9%
	131,746	100.0%

Distribution By Academic Year

All loans from June 1, 1969 to August 31, 1975

	Number	Percentage
Freshman	39,644	26%
Sophomore	32,730	22%
Junior	28,912	19%
Senior	25,703	17%
Graduate	21,858	15%
Middle	1,208	1%
	150,055	100%

PARTICIPATING LENDERS IN THE HELP PROGRAM OF

MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORPORATION

Lenders agree that HELP loans will comply with the requirements of the plan. Borrowers and schools must qualify under the terms of the program. No lender is obliged to make any specific loan and borrowers must find and negotiate with a lender willing to make a loan. Diligence must be maintained by all parties to conform with the requirements of the program in making, servicing and repayment of the loans.

Abington
Abington National
Abington Savings

Acton
Shawmut County Bank, N.A.
Middlesex Inst. for Savings
Hudson National

Acushnet
Acushnet Fed. Credit Union

Adams
Berkshire Bank & Trust
First Agric. Nat'l. of Berkshire County
South Adams Savings

Agawam
Third Nat'l. of Hampden Cnty.
Valley Bank & Trust
Westfield Savings
Springfield Inst. for Savings
Buxton Employees Credit Union
Community Savings Bank
Shawmut First Bank & Trust

Amesbury
Merrimack Valley Nat'l. Bank
Northeast National
Haverhill National

Amherst
First Nat'l. of Amherst
Hampshire Nat'l. Bank of S. Hadley

Andover
Arlington Trust
Bay State Mercha n ts Nat'l.
Merrimack Valley Nat'l.
Andover Savings

Arlington
Coolidge Bank & Trust
Harvard Trust
Suburban National Bank

Ashburnham
Worcester County Nat'l.
Gardner Savings Bank

Ashby
Ashby Comm. Fed. Credit Union

Ashland
Framingham Trust
Shawmut Community Nat'l. Bank

Assonet
Fall River Trust

Athol
Athol Clinton Co-op. Bank
Athol Credit Union
Guaranty Bank & Trust Co.

Attleboro
Attleboro Trust Co.
First Bristol County Nat'l.
Attleborough Savings
Balfour Credit Union
Swank Federal Credit Union
First Fed. Svgs. & Loan Assoc.

Attleboro Falls
Attleboro Trust
United National Bank

Auburn
Guaranty Bank & Trust
Mechanics Nat'l. Bank of Worcester
Worcester County National Bank
Consumer Savings
Peoples Savings Bank
Lodding Employees Credit Union

Auburndale
Newton Waltham Bank & Trust

Avon
South Shore National
Norfolk County Trust

Ayer
North Middlesex Savings Bank

Baldwinville
Worcester County National

Barnstable
First National of Yarmouth

Barre
Worcester County National

Bass River
Bass River Savings

Bedford
Coolidge Bank & Trust
Garden City Trust
Lexington Trust
Hanscom Federal Credit Union

Belchertown
Hampshire Nat'l. of S. Hadley
Ludlow Savings

Bellingham
Shawmut Needham National
Norfolk County Trust

Belmont
Shawmut County Bank, N.A.
Guaranty First Trust
Harvard Trust
Belmont Savings

Bernardston
Pioneer National - Franklin

Beverly
Bay Bank & Trust
Beverly National
Beverly Savings
Shawmut Merchants Bank, N.A.

Beverly Farms
Bay Bank & Trust

Billerica
Middlesex Bank, N.A.
Lowell 5¢ Savings

Boston

First National
Shawmut Bank of Boston, N.A.
N.E. Merchants
State Street Bank & Trust
U.S. Trust
Unity Bank & Trust
Capitol Bank & Trust
Home Savings
Boston 5¢ Savings
Dorchester Savings
Provident Inst. for Savings
Suffolk Franklin Savings
Charlestown Savings
Hibernia Savings
South Boston Savings
Workingmen's Co-op Bank
Commonwealth Co-op Bank
Merchants Co-op. Bank
People's Fed. Svgs. & Loan Assoc.
Mass. Halfway Houses Fed. Cr. Union
Boston Progressive Credit Union
Boston Teachers Fed. Credit Union
Roslindale Co-op. Bank
Edward Everett Fed. Svgs. & Loan Assoc.
Industrial Credit Union
B.H.A. Empl. Fed. Credit Union,(Dorchester)
Sears Employees Credit Union
Delta Wye Federal Credit Union
Noodle Island Credit Union
N.E. Lee Fed. Credit Union (open only Sundays)
Consumers Credit Union

Bradford
Haverhill National

Braintree
Norfolk County Trust
South Shore National
Milton Bank & Trust
Hancock Bank & Trust
Sigma Employees Fed. Credit Union
Braintree School Dept. Fed. Credit Union
Braintree Savings Bank

Brewster
Cape Cod 5¢ Savings

Bridgewater
Plymouth-Home National
Bridgewater Credit Union
Rockland Trust

Brockton
Shawmut First County Bank, N.A.
Plymouth-Home National
Mass. Bank & Trust
Brockton Savings
Peoples Savings
Crescent Credit Union
Brockton Credit Union
Montello Federal Savings & Loan

Brookline
Brookline Trust
Norfolk County Trust
Town Bank & Trust

Burlington
Burlington Bank & Trust Co.
Shawmut County Bank, N.A.
Middlesex Bank, N.A.
Burlington Mun. Fed. C.U.

Buzzards Bay
Buzzards Bay National

Cambridge
Cambridge Trust
Charlesbank Trust
Shawmut County Bank, N.A.
Harvard Trust
Middlesex Bank, N.A.
Coolidge Bank & Trust
University Bank & Trust
Cambridge Savings Bank
Century Bank & Trust
Polaroid Employees Fed. C.U.
Kendall Square Fed. C.U.

Canton
Hancock Bank & Trust
Shawmut Needham Bank, N.A.
Norfolk County Trust
South Shore National
Canton Inst. for Savings

Carver
National Bank of Wareham

Centreville
Cape Cod Bank & Trust

Chatham
Cape Cod 5¢ Savings

Chelmsford
Lowell 5¢ Savings
Lowell Inst. for Savings

Chelsea
Shawmut Bank of Boston, N.A.
First National of Boston
State Street Bank & Trust
Atlantic Savings
Chelsea Provident Co-op Bank

Cheshire
South Adams Savings Bank

Chestnut Hill
Town Bank & Trust
Norfolk County Trust
Newton-Waltham Bank & Trust
University Bank & Trust
Mutual Bank for Savings

Chicopee
Chicopee Bank & Trust
Shawmut First Bank & Trust
Third Nat'l. Bank of Hampden County
Chicopee Savings
Springfield Inst. for Savings
Valley Bank & Trust Co.
Westco Credit Union

Chicopee Falls
Shawmut First Bank & Trust
Chicopee Savings
Community Savings

Chilmark
Martha's Vineyard National

Clinton
Guarantee Bank & Trust
Worcester County National
Clinton Savings
Athol-Clinton Co-op Bank

Cochituate
Newton-Waltham Bank & Trust

Cohasset
Rockland Trust
South Shore National
Cohasset Savings

Concord
Harvard Trust
Concord Co-op Bank
Middlesex Inst. for Savings
General Radio Credit Union

Conway
Conway National
The County Bank,N.A.

Dalton
First Agric. Nat'l. of Berkshire County

Danvers
Bay Bank & Trust
Security National
Danvers Savings

Dartmouth
New Bedford Inst. for Savings

Dedham
Norfolk County Trust
Hancock Bank & Trust
South Shore National

Dennis Port
Bass River Savings

Dracut
Lowell Inst. for Savings

Dover
South Shore National

Dudley
Guaranty Bank & Trust
Webster 5¢ Savings

Duxbury
Plymouth-Home National
Rockland Trust
Plymouth 5¢ Savings

East Bridgewater
Plymouth-Home National

East Dennis
First Nat'l. Bank of Yarmouth

East Douglass
Uxbridge Savings Bank

East Falmouth
Falmouth National

Easthampton
First Nat'l. of Easthampton
Easthampton Savings
Stanhome Associates Fed. C.U.

East Lexington
Coolidge Bank & Trust

East Longmeadow
Valley Bank & Trust
Shawmut First Bank & Trust
Third Nat'l. Bank of Hampden County
Community Savings
Springfield Inst. for Savings

East Milton
Norfolk County Trust

East Pepperell
Monument Fed. Savings & Loan Assoc.

East Walpole
Norfolk County Trust

East Weymouth
South Shore National

Edgartown
Edgartown National
Dukes County Savings Bank

Essex
First National of Ipswich

Everett
Shawmut County Bank,N.A.
Coolidge Bank & Trust
Middlesex Bank, N.A.
Everett Savings

Fairhaven
Merchants Nat'l. of New Bedford
Nat'l. Bank of Fairhaven
Fairhaven Savings Bank

Fairview
Shawmut First Bank & Trust
Third National Bank of Hampden Cnty.
Community Savings

Fall River
B.M.C. Durfee Trust
Fall River National
Fall River Trust
Fall River 5¢ Savings
First Bristol County Nat'l. Bank
Our Lady of Health Fed. C.U.
St.Jean Baptiste Fed. C.U.
Notre Dame Parish Fed. C.U.
Santo Christo Fed. C.U.
St. Michael's Fed. C.U.
St. Elizabeth's Fed. C.U.
First Fed. Sav. & Loan Assoc. of F.R.
St. Patrick's Fall River Fed. C.U.

Falmouth
Falmouth National
Falmouth Bank & Trust
Falmouth Co-op Bank
Plymouth Savings

Feeding Hills
Western Bank & Trust
Community Savings Bank

Fitchburg
First Safety Fund National
Worcester County National
Fitchburg Savings Bank
Worcester North Savings Inst.
Cleghorn Credit Union
Fidelity Co-op Bank

Florence
Florence Savings

Fort Devens
Worcester County National Bank

Foxboro
Foxboro National
Norfolk County Trust

Framingham
Framingham Trust
Shawmut Community National
Guaranty-First Trust
Framingham Savings
Framingham Mun. Fed. C.U.
Newton-Waltham Bank and Trust Co.

Franklin
Norfolk County Trust
South Shore National
Benjamin Franklih Savings Bank

Gardner
First Safety Fund Nat'l. of Fitchburg
Worcester County National
Gardner Savings
Gardner Mun. Fed. C.U.
Chair Town Co-op Bank

Georgetown
Merrimack Valley National
Haverhill National

Gilbertville
Ware Savings Bank

Gloucester
Cape Ann Bank & Trust
Gloucester National
Cape Ann Savings

Grafton
Guaranty Bank & Trust
Consumer Savings

Great Barrington
Berkshire Bank & Trust
First Agric. Nat'l. of Berkshire Cnty.
Great Barrington Savings

Greendale
Consumer Savings Bank

Greenfield
Pioneer Nat'l. Bank
Franklin County Trust
Greenfield Savings
Franklin Savings Inst.
MFC Federal C. U.
Treasure Credit Union
Franklin Cnty. Empl. Fed. C.U.

Groveland
Haverhill National
Family Mutual Savings Bank

Hadley
First Nat'l. of Amherst
Northampton National

Halifax
Rockland Trust

Hamilton
Bay Bank & Trust

Hampden
Third Nat'l. Bank of Hampden Cnty.

Hanover
Rockland Trust
Rockland Credit Union

Hanson
Rockland Trust

Harwich Port
Cape Cod Bank & Trust
Cape Cod 5¢ Savings Bank

Haverhill
Haverhill National
Merrimack Valley National
Arlington Trust (of Lawrence)
Family Mutual Savings
Pentucket 5¢ Savings
Bay State National Bank

Hingham
Lincoln Trust Co.
Shawmut First County Bank, N.A.
Rockland Trust

Holbrook
South Shore National

Holliston
Guaranty First Trust
Framingham Trust

Holden
Worcester County National
Mechanics Nat'l. of Worcester
Consumer Savings
Olsen Employees Fed. C.U.
Peoples Savings

Holyoke
Old Colony Bank
Park National
Shawmut First Bank & Trust
First Nat'l. Bank of Hampden County
Community Savings Bank
Vanguard Savings
Peoples Savings

Hopkinton
Framingham Trust

Hudson
Hudson National
Newton-Waltham Bank & Trust
Hudson Savings

Hull
Rockland Trust

Hyannis
Cape Cod Bank & Trust
Merchants Bank & Trust Co.
of Cape Cod
Falmouth National
Bass River Savings

Indian Orchard
Third Nat'l. Bank of Hampden County
Valley Bank & Trust
Monsanto Empl. C.U.

Ipswich
First Nat'l. of Ipswich
Bay State National
Essex County Bank & Trust

Islington
South Shore National

Kingston
Plymouth-Home National
Plymouth Five Cents Savings

Lancaster
Worcester County National

Lanesboro
City Savings Bank of Pittsfield

Lawrence
Arlington Trust
Bay State National
Merrimack Valley National
Essex Broadway Savings
Lawrence Savings
Lawrence Co-op Bank
Merrimack Co-op Bank

Lee
Berkshire Bank & Trust
Lee National
Lee Savings

Leicester
Guaranty Bank & Trust

Lenox
Lenox National
Lenox Savings

Leominster
Merchants National
Guaranty Bank & Trust
Worcester County National Bank
Worcester North Savings Inst.
Leominster Savings Bank
Leominster Mun. Emp. Fed. C.U.
Fidelity Co-op Bank
Monument Fed. Sgs. & Ln. Assoc.

Lexington
Depositors Trust
Shawmut County Bank, N.A.
Coolidge Bank & Trust
Harvard Trust
Lexington Savings
Leader Fed. Svgs.& Loan Assoc.

Lincoln
Newton-Waltham Bank & Trust

Littleton
Harvard Trust

Longmeadow
Shawmut First Bank & Trust Co.
Third National Bank of Hampden Cnty.
Valley Bank & Trust
Springfield Inst. for Savings
Longmeadow Town Emp. Fed. C.U.

Lowell

Middlesex Bank, N.A.
Lowell Inst. for Savings
Lowell 5¢ Savings
Central Savings

Ludlow
Valley Bank & Trust
Community Savings
Ludlow Savings

Lunenburg
Worcester North Savings Inst.

Lynn
Essex County Bank & Trust
Security National
Bay Bank & Trust (br. of Beverly)
Shawmut Merchants Bank, N.A.
Lynn Inst. for Savings
Lynn 5¢ Savings
Lynn Firemen's Fed. C.U.
Lynn Teachers Federal C.U.

Lynnfield
Essex County Bank & Trust
Bay Bank & Trust
Lynn Inst. for Savings

Magnolia
First National of Ipswich

Malden
Century Bank & Trust
First National of Malden
Malden Trust
Middlesex Bank, N.A.
Malden Savings Bank
Progressive Workmen's C.U.
Malden Gas & Elec. Empl. C.U.

Manchester
Cape Ann Bank & Trust
Cape Ann Savings

Manomet
Plymouth-Home National

Mansfield
Attleboro Trust
United National Bank

Marblehead
National Grand Bank
Security National
Marblehead Savings
Marblehead Trust

Marion
National Bank of Wareham

Marlboro
First National of Marlboro
Peoples National of Marlborough
Newton-Waltham Bank & Trust
Shawmut Community National Bank
Marlborough Savings Bank
Freedom Fed. Sav. & Loan Assoc.

Marshfield
Rockland Trust
Lincoln Trust
Plymouth 5¢ Savings

Mattapoisett
Plymouth Home National
Plymouth Savings

Maynard
Middlesex Bank, N.A.
Assabet Inst. for Savings
Shawmut Community Nat'l. Bank
University Bank & Trust

Medfield
Norfolk County Trust

Medford
Depositors Trust
Malden Trust
Middlesex Bank, N.A.
Medford Savings

Medway
Medway Savings
Norfolk County Trust

Melrose
Shawmut Melrose-Wakefield Trust
Middlesex Bank, N.A.
Melrose Savings

Merrimac
Merrimack Valley National
Northeast National

Methuen
Arlington Trust
Bay State Merchants National
Merrimack Valley National
Andover Savings
Lawrence Savings

Middleboro
Middleborough Trust
Plymouth-Home National
Middleborough Savings

Middleton
Arlington Trust
Family Mutual Savings Bank

Milford
Home National of Milford
Milford Nat'l. Bank & Trust
Milford Savings
Milford Federal Savings & Loan Assoc.

Millbury
Millbury National

Millis
South Shore National
Medway Savings

Milton
Norfolk County Trust
Metro Bank & Trust
Milton Savings

Monson
Shawmut First Bank & Trust
Monson Savings

Nantucket
Nantucket Inst. for Savings

Natick
Shawmut Community National
Newton Waltham Bank & Trust
Guaranty-First Trust
Natick 5¢ Savings
Natick Teachers Federal C.U.

Needham
Shawmut Needham Bank
Norfolk County Trust
South Shore National Bank
Mutual Bank for Savings
Spector N.E. Fed. C.U.

Needham Heights
Shawmut Needham Bank

New Bedford
Southeastern Bank & Trust
First National of New Bedford
Merchants National
New Bedford 5¢ Savings
New Bedford Inst. for Savings
St. Antoine Fed. C.U.
St. Joseph Parish Fed. C.U.

Newburyport
First & Ocean National
Merchants National
Arlington Trust
Inst. for Savings in Newburyport
Newburyport 5¢ Savings

Newton
Shawmut Community Bank
University Bank & Trust
Newton-Waltham Bank & Trust
Mutual Bank for Savings

Newton Centre
Shawmut Community Bank
Newton-Waltham Bank & Trust
Mutual Bank for Savings

Newton Highlands
Newton-Waltham Bank & Trust
Mutual Bank for Savings

Newton Upper Falls
Newton-Waltham Bank & Trust

Newtonville
Shawmut Community National
Newton-Waltham Bank & Trust
Mutual Bank for Savings
Newton Co-operative Bank

Nonantum
Shawmut Community Bank

North Adams
Berkshire Bank & Trust
First Agric. Nat'l. of Berkshire Cnty.
North Adams Hoosac Savings

Northampton
Pioneer National Bank
Northampton National
Florence Savings
Northampton Inst. for Savings
G & E Federal Credit Union

North Andover
Arlington Trust
Merrimack Valley National
Andover Savings
Lawrence Savings
Merrimack Valley Fed. C.U.
Essex Broadway Savings Bank

North Attleboro
Attleboro Trust
United National Bank
Attleborough Savings

North Beverly
Bay Bank & Trust
Beverly National

Northboro
Northborough National
Mechanics National
Westborough Savings

North Brookfield
Worcester County National

North Chelmsford
Lowell Five Cents Savings

North Dighton
United National

North Easton
United National

North Falmouth
Falmouth National

North Quincy
Hancock Bank & Trust
South Shore National
Quincy Savings Bank

North Randolph
South Shore National

North Reading
Middlesex Bank, N.A.

North Scituate
Shawmut First County

North Westport
Fall River Trust
Westport Federal Credit Union

North Weymouth
South Shore National
Weymouth Savings

Norton
United National

Norwell
Rockland Trust
Shawmut First County
South Scituate Savings

Norwood
Shawmut Needham Bank,N.A.
Norfolk County Trust

Norwood (Cont'd.)
South Shore National
Hancock Bank & Trust

Oak Bluffs
Martha's Vineyard National

Orange
Franklin County Trust
Orange Savings Bank

Orleans
Cape Cod Bank & Trust
Cape Cod 5¢ Savings
Bass River Savings Bank

Osterville
Cape Cod Bank & Trust
Bass River Savings

Otis Air Force Base
Falmouth National Bank

Oxford
Guaranty Bank & Trust
Webster 5¢ Savings Bank

Palmer
Third National Bank of Hampden County
Shawmut First Bank & Trust
Palmer Savings

Paxton
Guaranty Bank & Trust

Peabody
Shawmut Merchants Bank, N.A.
Essex County Bank & Trust
Security National
Warren 5¢ Savings

Pembroke
Shawmut First County Bank,N.A.
Rockland Trust

Pittsfield
Berkshire Bank & Trust
First Agric. Nat'l. of Berkshire Cnty.
Pittsfield National
Berkshire County Savings
City Savings
Union Fed. Savings & Loan Assoc.

Pittsfield
Berkshire Bank & Trust
First Agric. Nat'l. of Berkshire Cnty.
Pittsfield National
Berkshire County Savings
City Savings
Union Federal Savings & Loan Assoc.

Plainville
Hancock Bank & Trust

Plymouth
Plymouth-Home National
Rockland Trust Co.
Plymouth 5¢ Savings
Plymouth Savings

Pocasset
Cape Cod Bank & Trust

Provincetown
Cape Cod Bank & Trust
Seamen's Savings

Quincy
Norfolk County Trust Co.
Hancock Bank & Trust
South Shore National
Metro Bank & Trust
Quincy Savings Bank
Quincy Co-op Bank
Pneumatic Credit Union

Randolph
Norfolk County Trust Co.
Hancock Bank & Trust Co.
South Shore National Bank

Raynham
United National
First Bristol County National

Reading
Middlesex Bank, N.A.
Reading Savings
Shawmut Melrose-Wakefield Bk. & Tr. Co

Revere
N.E. Merchants Nat'l. Bank of Boston
First National Bank of Boston
Shawmut Bank of Boston, N.A.
Atlantic Savings
Revere Municipal Emp. Fed. C.U.

Rockland
Rockland Trust
Rockland Savings
Rockland Credit Union

Rockport
Rockport National
Cape Ann Bank & Trust

Roslindale
Suffolk Franklin Savings Bank
Roslindale Co-op Bank
New England Merchants Nat'l. Bank

Salisbury
Merchants National Bank
Northeast National

Sandwich
Cape Cod Bank & Trust Co.
Falmouth Bank & Trust Co.

Saugus
Essex County Bank & Trust
Saugus Bank & Trust
Lynn 5¢ Savings

Saxonville
Framingham Trust
Shawmut Community Bank, N.A.

Scituate
Rockland Trust
Rockland Savings
Lincoln Trust

Seekonk
First Bristol County National
B.M.C. Durfee Trust
Taunton Co-op. Bank

Sharon
Norfolk County Trust
South Shore National

Sheffield
First Agri. Nat'l of Berkshire Co.
Great Barrington Savings

Shelburne Falls
Country Bank

Sherborn
Framingham Trust

Shrewsbury
Worcester County National
Commerce Bank & Trust
Worcester Cnty. Inst. for Svgs.
Consumer Savings
Shrewsbury Mun. Emp. Fed C.U.
Guaranty Bank & Trust Co.

Somerset
Fall River Trust
Slade's Ferry Trust
Fall River National

Somerville
Shawmut County Bank,N.A.
Middlesex Bank, N.A.
Century Bank & Trust
Somerville Savings
Somerville Mun. Fed. C.U.
Somerville School Emp. Fed. C.U.

South Attleboro
First Bristol Cnty. Nat'l Bank

Southborough
Guaranty Bank & Trust
Worcester County National

South Braintree
Norfolk County Trust
Braintree Savings

Southbridge
Guaranty Bank& Trust
Worcester County National
Southbridge Savings

South Deerfield
Pioneer Natl. Bank
Greenfield Savings Bank

South Gardner
WorcesterCounty National

South Hadley
Hampshire National Bank

South Hadley Falls
Hampshire Nat'l Bank of So. Hadley
Community Savings

South Hamilton
Beverly National
Salem Five Cents Savings

South Quincy
Quincy Savings Bank

South Weymouth
Hancock Bank & Trust
South Shore National
South Weymouth Savings

Southwick
Third Nat'l of Hampden County
Woronoco Savings Bank

South Yarmouth
Cape Cod Bank & Trust
First National of Yarmouth
Bass River Savings
Falmouth National Bank
Merchants Bank& Trust

Spencer
Worcester County National
Spencer Savings Bank

Springfield
Shawmut First Bank & Tr.
Third Nat'l of Hampden County
Valley Bank & Trust
Community Savings
Springfield Inst. for Savings
C.L.U. Credit Union
Security National Bank
Springfield Teachers' C. U.
Westco Credit Union
Western Mass. Tel. Workers C.U.
Kelko Credit Union
Union Federal Savings & Loan
(Branch of Pittsfield)
Chicopee Bank & Trust Co.

Sterling
Worcester County National

Stockbridge
Berkshire Bank & Trust

Stoneham
Malden Trust
Middlesex Bank, N.A.

Stoughton
Norfolk County Trust
South Shore National

Stow
Hudson National Bank

Sturbridge
Guaranty Bank & Trust
Worcester County National Bk.

Sudbury
Framingham Trust
Shawmut Community
Guaranty First Trust
Newton-Waltham Bank

Sunderland
Franklin Savings Inst.

Swampscott
Essex County Bank & Trust
Lynn Sc Savings

Taunton
First Bristol County National
United National
Bristol County Savings
Taunton Co-op. Bank
B.M.C. Durfee Trust

Tewksbury
Middlesex Bank, N.A.
Lowell Sc Savings
Shawmut Melrose-Wakefield Bank & Trust Co.

Three Rivers
Third National Bank of Hampden County.

Topsfield
Family Mutual Savings
Security National

Turners Falls
Pioneer National Bank
Greenfield Savings Bank

Uxbridge
Uxbridge Savings Bank

Vineyard Haven
Martha's Vineyard National

Waban
Newton-Waltham Bank & Trust

Wakefield
Shawmut Melrose-Wakefield Bank & Trust Co.
Wakefield Savings Bank
Middlesex Bank, N.A.
Mass. Central Fed. Credit Union

Walpole
Norfolk County Trust
Hancock Bank & Trust
Edward Everett Fed. Svgs. & Loan

Waltham
Newton-Waltham Bank & Trust
Shawmut Community Bank
Guaranty First Trust
Mutual Bank for Savings
Grover Cronin Credit Union

Ware
Ware Trust
Ware Savings Bank

Wenham
[illegible] Trust
[illegible] River National
[illegible]nics Fed C.U.
[illegible]ercy Trust Co.

Wareham
National Bank of Wareham
Plymouth Savings
Middleborough Trust Co.

Watertown
Coolidge Bank & Trust
Shawmut Community Bank
Union Market National
Freedom Fed. Sav. & Loan Ass'n.
Ionics Credit Union

Wayland
Newton-Waltham Bank & Trust

Webster
Guaranty Bank & Trust
Worcester County National
Webster Credit Union
Webster Sc Savings

Wellesley
Norfolk County Trust
South Shore National
First Bank & Trust of Wellesley
Mutual Bank for Savings

Wellesley Hills
Norfolk County Trust
South Shore National
First Bank & Trust of Wellesley
Shawmut Needham Bank

Wellfleet
Cape Cod Sc Savings Bank

Westboro
Guaranty Bank & Trust
Worcester County National
Peoples Savings Bank
Westborough Savings

West Boylston
Guaranty Bank & Trust
Peoples Savings Bank
Worcester County Inst for Svgs.

West Bridgewater
Plymouth-Home National
First County National

West Concord
Hudson National
Middlesex Inst for Savings
Harvard Trust Co.

Westfield
Shawmut First Bank & Trust
Third National of Hampden County
Valley Bank & Trust
Heritage Bank & Trust
Woronoco Savings
Westfield Savings
Savage Arms Emp. Credit Union

Westford
Shawmut County Bank
Middlesex Bank, N.A.

Westminster
Worcester County National

West Newton
Newton-Waltham Bank & Trust
Newton-Co-operative Bank

Weston
Newton-Waltham Bank & Trust

Westover Air Force Base
Shawmut FirstBank & Trust Co.

Westport
B.N.C. Durfee Trust Co.

West Roxbury
Suffolk Franklin Savings Bank

West Somerville
Somerville School Emp. Credit Union

West Springfield
Third National of Hampden County
Valley Bank & Trust
Western Bank & Trust Co.
Westfield Savings
West Spfld. Mun. Emp. Fed. CU

West Stockbridge
City Savings Bank of Pittsfield
Great Barrington Savings

West Woburn
Woburn National Bank

Westwood
Norfolk County Trust

West Yarmouth
First National of Yarmouth

53-139 O - 78 - 7

Weymouth
Norfolk County Trust
South Shore National
South Weymouth Savings
Weymouth Savings
Quinwey Credit Union

Whitman
Plymouth-Home National
Mutual Fed. Savings & Loan Ass'n.

Wilbraham
Valley Bank & Trust
Ludlow Savings

Williamsburg
Hampshire National Bank

Williamstown
Williamstown National
Williamstown Savings

Willimansett
Holyoke National

Wilmington
Middlesex Bank, N.A.
Shawmut Melrose-Wakefield Bank
Reading Savings
Avco-Mass. Federal Credit Union
Wilmington Municipal Credit Union

Winchendon
Guaranty Bank & Trust
Winchendon Savings

Winchester
Shawmut Winchester Bank
Winchester Trust

Winthrop
First National of Boston
Workingmen's Co-op Bank

Woburn
Woburn National
Tanners National
University Bank & Trust
Woburn 5¢ Savings
Woburn Co-op. Bank

Wollaston
Hancock Bank & Trust
South Shore National

Woods Hole
Falmouth National

Worcester
Commerce Bank & Trust
Guaranty Bank & Trust
Mechanics National
Worcester County National
Peoples Savings Bank
Worcester County Inst. for Savings
Consumers Savings
Bay State Savings
Freedom Fed. Savings & Loan Ass'n.
Worcester Central Federal Credit Union

Wrentham
South Shore National

Yarmouth Port
First National of Yarmouth

BOSTON LENDERS PARTICIPATING IN H.E.L.P.

B.H.A. EMPLOYEES FEDERAL CREDIT UNION*
73 MAYFIELD STREET
DORCHESTER, MASSACHUSETTS 02125

BOSTON FIVE CENTS SAVINGS BANK
10 SCHOOL STREET
BOSTON, MASSACHUSETTS 02108

BOSTON TEACHERS FEDERAL CREDIT UNION*
216 BOYLSTON STREET
BOSTON, MASSACHUSETTS 02116

CAPITOL BANK AND TRUST COMPANY
1 BULFINCH PLACE
BOSTON, MASSACHUSETTS 02114

CHARLESTOWN CO-OPERATIVE BANK
250 MAIN STREET
CHARLESTOWN, MASSACHUSETTS 02129

CHARLESTOWN SAVINGS BANK
55 SUMMER STREET
BOSTON, MASSACHUSETTS 02110

COMMONWEALTH CO-OPERATIVE BANK
73 TREMONT STREET
BOSTON, MASSACHUSETTS 02108

DORCHESTER SAVINGS BANK
572 COLUMBIA ROAD
DORCHESTER, MASSACHUSETTS 02125

FIRST NATIONAL BANK OF BOSTON
100 FEDERAL STREET
BOSTON, MASSACHUSETTS 02106

HIBERNIA SAVINGS BANK
263 WASHINGTON STREET
BOSTON, MASSACHUSETTS 02108

HOME SAVINGS BANK
69 TREMONT STREET
BOSTON, MASSACHUSETTS 02108

INDUSTRIAL CREDIT UNION*
270 BOYLSTON STREET
BOSTON, MASSACHUSETTS 02116

MERCHANTS CO-OPERATIVE BANK
125 TREMONT AT PARK STREET
BOSTON, MASSACHUSETTS 02108

NEW ENGLAND MERCHANTS NATIONAL BANK
31 MILK STREET - P. O. BOX 4541
BOSTON, MASSACHUSETTS 02106

PROVIDENT INSTITUTION FOR SAVINGS
36 TEMPLE PLACE
BOSTON, MASSACHUSETTS 02105

SOUTH BOSTON SAVINGS BANK
460 WEST BROADWAY
SOUTH BOSTON, MASSACHUSETTS 02127

STATE STREET BANK AND TRUST COMPANY
53 STATE STREET
BOSTON, MASSACHUSETTS 02110

SUFFOLK FRANKLIN SAVINGS BANK
45 FRANKLIN STREET
BOSTON, MASSACHUSETTS 02110

THE NATIONAL SHAWMUT BANK OF BOSTON
542 COMMONWEALTH AVENUE
BOSTON, MASSACHUSETTS 02215

UNITED STATES TRUST COMPANY
30 COURT STREET
BOSTON, MASSACHUSETTS 02101

WORKINGMENS CO-OPERATIVE BANK
30 CONGRESS STREET
BOSTON, MASSACHUSETTS 02109

* IF YOU OR SOMEONE IN YOUR FAMILY IS A MEMBER OF THE CREDIT UNION

Massachusetts
HIGHER EDUCATION ASSISTANCE
CORPORATION

511 Statler Building, Boston, Massachusetts 02116 426-9434

Higher Education Loan Plan

JOSEPH F. CONCROVE, Treasurer HILDRETH AUER, Vice President

A. WARREN WILKINSON, Clerk ADELINA A. CHELLA, Assistant Treasurer

October 27, 1975

The Honorable Edward W. Brooke
Old Senate Office Building
Room 421
Washington, D.C. 20510

Dear Senator Brooke,

As the testimony of Mr. Francis Delaney, Jr., Director of Financial Aid of the College of the Holy Cross, was not presented orally before the Senate Appropriations Committee Hearings on October 17, 1975, it was only today that we had the opportunity to examine his written statement. We find so many errors in this presentation that we are obliged to correct the record.

Mr. Delaney implies that there is no rational discourse "amongst student aid officers, the banking community and the state agency charged with operation of the loan program." MHEAC holds regular training sessions with lenders and in 1973 had such meetings in Springfield on January 30, 1973, in Worcester on February 5, 1973, and in Boston on February 13, 1973 for the purpose of explaining the revisions of the loan program as enacted by the amendments of 1972. In addition we regularly provide written directives, train bank personnel in our office, and are in extensive daily contact with lenders in the active administration of the loan program. Similarly, at the request of the New England Regional Office of the U.S. Office of Education, we participated in three meetings held over the state for the instruction of Financial Aid Officers. We have also participated in several meetings of the Massachusetts Association of Financial Aid Administrators.

Mr. Delaney complains that students are at times turned away by banks to which they apply for HELP loans. In fact during the past

five years the following numbers of loans and dollars have been lent and guaranteed under the HELP program:

	Number of Loans	Value of Loans
1970	20,815	$20,293,039
1971	22,024	$23,705,885
1972	22,151	$25,548,113
1973	22,649	$29,716,864
1974	24,968	$35,597,041

During this time we are not aware of any significant number of students who did not obtain loans.

The growth of the HELP program is better testimony to its support by lenders and its utility to students than a generalized charge which implies the program is not a reliable or a viable source of student assistance to those who need it. Considering the status of the Commonwealth's finances, Massachusetts students are fortunate that they have not had to rely on state funds for their higher education loans.

Mr. Delaney charges that MHEAC has opposed the Student Loan Marketing Association warehousing and purchase programs. This is not correct. We have consistently favored the warehousing program by which lenders borrow from SLMA. Under this program funds obtained from SLMA must be recommitted to student loans and the original lender remains responsible for loan administration. MHEAC has not favored the SLMA purchase program because funds obtained through it are not required to be reinvested in student loans. Additionally the original lender looses contact with the borrower and servicing of the loan would be taken over by an unassociated and to date remote servicer. In our opinion this would result in completely impersonal computerized administration and high default experience.

In its effort to simplify and streamline loan administration MHEAC has developed and is perfecting a single sheet loan application. It is expected that this will be in use by January 1, 1976.

Mr. Delaney requests a verifiable system for documenting loan applications which are rejected. MHEAC does document with written reasons any loan applications returned for failure to qualify.

Mr. Delaney states that a higher guarantee fee has been requested without sufficient justification or explanation of need. This is absolutely without foundation. Authority to increase the fee was requested by MHEAC of the U.S. Office of Education and MHEAC was required to provide data justifying its request. Notice of the proposed change with reason for the change was published in the Federal Register of May 13, 1975 with invitation for public comment. Such comment as was received favored the increase. No adverse comment was received.

Accordingly the Secretary of Education published a change in the applicable regulations in the Federal Register of August 14, 1975 which permits this increase. Several other states will also be increasing their required fee.

Mr. Delaney suggests a different composition of MHEAC Board of Directors. MHEAC's success in securing lender cooperation (346 lenders with 871 offices accessible to borrowers) and growth in numbers and values of loans, along with its favorable default ratio, must surely speak favorably for the Board and management. The Guaranteed Student Loan Program is a loan program not another grant mechanism. Moreover it is a voluntary program in which lenders are enlisted to participate and agree to do so in accordance with the terms of the program. This does require, however, such administrative and fiscal procedures as may be necessary to protect the U.S. from the risk if unreasonable loss, to insure proper and efficient administration, and to insure that due diligence will be exercised in the making, servicing and collecting of the loans. These requirements are necessarily more stringent than for a grant program.

As indicated in our testimony, we stand prepared to provide any information available to us which will enhance the HELP program originated by our organization which has continued to serve as a prototype in many respects.

Sincerely,

Helge Holst
President

Joseph F. Cosgrove
Treasurer

NONDEPARTMENTAL WITNESSES

MASSACHUSETTS STUDENT LOBBY

STATEMENT OF JOHN SHORTSLEEVE, DIRECTOR, MASSACHUSETTS STUDENT LOBBY

MASSACHUSETTS GUARANTEE AGENCY

Senator BROOKE. Now we are pleased to welcome Mr. John Shortsleeve, director of the Massachusetts Student Lobby. He is here to give us some insight into the student aid program from a student point of view.

Mr. SHORTSLEEVE. Thank you. First of all, let me say that I am sorry I do not have a prepared statement. I was first notified of this opportunity 3 hours ago. Let me, second of all, say that I am here as a member of the Massachusetts Student Lobby. Although I am a former member of the Student Loan Commission, I am not here to speak for the commission for two reasons: One, the commission hasn't reached any formal conclusions, and two, I have resigned. I have been replaced on the commission by Tom Doherty who is a Harvard law student. It is possible that he will be here before the day is out.

I won't take much of your time. I would like to say, when I first began investigating the student loan issue 2 years ago, I think I was somewhat naive in thinking that the State guaranteed loan program needed an awful lot of improvement. I think that after doing some research for the commission I would like to first say that I think comparing the Massachusetts Guarantee Agency to other similar agencies throughout the Nation, that it ranks as one of the best guarantee agencies in the Nation. They made an awful lot of money available last year to students.

AREAS FOR IMPROVING PROGRAM

Having said that, I think that any program needs improvement and I think there are three areas where I would improve the program. First of all we need more visibility. Right now there is not a list available of all the banks in the program. The Massachusetts Student Lobby conducted a survey 2 years ago on eight campuses, attempting to get some sort of data on the question of demand. I don't have the survey results here with me, but we found that there was a great lack of awareness of the program. There were many examples of students that had applied to various banks that had been turned down for various reasons and mostly just because they did not have an account for a period of time or their parents did not have an account for a period of time with the bank.

I think that, one, there should be a list of all the banks available and it should be made available through the central guarantee agency. Two,

I think that the general standards right now that emanate from the 1965 act should be expanded upon and a more uniform system of administering the system at the bank level should be attempted so that students—right now when a student goes in to apply for a loan, the selection process very often takes place before the application is given. If in fact you are given an application, the chances are very good that you will get the loan, but the loan officer makes the decision, we have found, as to whether or not to give you the loan and whether or not to give you the application. For that reason, you don't have the data of students who have applied and students that have been turned down.

I think that on the question of demand as well, which comes up in Connecticut—and Mr. Holst and I were speaking a few months back—and I think that on the Connecticut phenomenon, where they have given—I am not sure of the exact dollar amount—it is in the $40 million area. It is very close to what Massachusetts gave last year, but they gave it to a student population that is almost half that of Massachusetts. If the demand is such in Connecticut for that percentage of students who wish to apply for and receive HELP loans, I think this is probably also true in Massachusetts. From my experience with the student lobby and the students that I have known, I think there is a greater demand for HELP loan money than is currently available.

VALUE OF O'HARA BILL

The only other constructive suggestion that I will give is that I think the current bill that is before the Special Subcommittee on Labor and Education, the O'Hara bill, would amend title 4 of the 1975 act by clarifying the formula by which the special allowance is formulated. Right now it is somewhat of a confused formula based upon various economic indicators and the banks are in a position of not being able to know beforehand what the special allowance will be that they will receive. The O'Hara bill is good in that it clarifies the standard. It ties the rate to the 90-day treasury rate plus a given percent, say 3 percent. My only suggestion would be they increase that by saying the treasury rate plus 5 or 6 percent. The idea is to make the banks as interested in giving HELP loans as they would be in giving car loan applications, for example. It is a system where you have a voluntary contribution by the banks and an effort should be made to make the thing more attractive to the banks—if in fact we are going to rely upon capital made available by the banks.

Those are the only suggestions I would have at this time.

Senator BROOKE. Thank you. I am going to ask that you be joined at the table by Miss Kathy Cafarella, a student at Regis College. Miss Cafarella, you may make your statement.

REGIS COLLEGE, WESTON, MASS.

STATEMENT OF KATHY CAFARELLA, STUDENT, REGIS COLLEGE, WESTON, MASSACHUSETTS

AVAILABILITY OF BANK LOANS

Ms. CAFARELLA. My name is Kathy Cafarella. I am currently a junior, a transfer student, at Regis College. One year ago my father was sud-

denly laid off from work and hasn't been able to get a job since. As a result, it was left up to me to put myself through college. I received some financial aid from Regis, along with a national direct student loan, but I still could not afford to pay the remainder of the tuition.

In July, I began to apply for bank loans, for the sum of $1,490. Coolidge Bank and Harvard Trust claimed that they had alloted all the money they had. Community National Bank in Watertown and Waltham, and Waverly Cooperative in Belmont had no money for student loans. Union Market National Bank discontinued student loans and Northeast Federal Savings told me to wait until September. At this point I was beginning to worry about how I would get the money to start school in September. I contacted my financial aid officer and she referred me to the board of higher education. Through the board of higher education I was recommended for a loan at the Newton-Waltham National Bank. As of the first of October, I had still not been guaranteed this loan. It came through last week.

Senator BROOKE. Thank you, Miss Cafarella.

Mr. Shortsleeve, did you ever apply or have you ever received a student loan?

Mr. SHORTSLEEVE. I have. As a matter of fact I will be indebted to a large extent when I graduate in June. It has enabled me to go through undergraduate and graduate school.

BANK QUESTIONING OF LOAN APPLICANT

Senator BROOKE. Miss Cafarella, did the banks ask if your father was employed?

Ms. CAFARELLA. No.

Senator BROOKE. Do you think that that was a factor in your being turned down? Is there any way for them to have known about it?

Ms. CAFARELLA. No; they didn't know about it.

Senator BROOKE. Were you asked if your family had an account at the banks where you applied?

Ms. CAFARELLA. Yes.

Senator BROOKE. At each bank?

Ms. CAFARELLA. No; not at all of the banks.

Senator BROOKE. Do you remember which banks asked you that?

Ms. CAFARELLA. Coolidge and Harvard Trust.

Senator BROOKE. Do you think that was a factor?

Ms. CAFARELLA. We did have an account there. We had an account at the Coolidge Bank.

Senator BROOKE. That is your parents who have an account there?

Ms. CAFARELLA. Yes; my parents have an account there.

Senator BROOKE. But you did not receive a loan from them, either?

Ms. CAFARELLA. No.

LENDING AGENCY REACTIONS TO STUDENT LOAN DEFAULTS

Senator BROOKE. Do you think that the bad press that students have been getting over defaults—do you think that is justified—do either of you know?

Mr. SHORTSLEEVE. On the default issue, I think that you can say that the bad press is such that they say, you know, the student loans have a high default rate, and it seems that generalization is accepted.

They should distinguish between Federal programs in which there is a guarantee agency and Federal programs in which there is not, and I think the default rate is very different. If in fact the default rate is 25 percent for the national direct student loans, as has been testified at hearings in Washington, it is obviously much higher than is the case with the State guarantee agencies in this region.

Tom Doherty has just arrived. He is the other member of the Commission, the person I was speaking in behalf of.

STUDENT LOAN COMMISSION, HARVARD LAW SCHOOL

STATEMENT OF THOMAS DOHERTY, STUDENT LOAN COMMISSION, STUDENT AT HARVARD LAW SCHOOL

REASONS FOR STUDENT LOAN DEFAULT RATE

Senator BROOKE. Mr. Doherty, why don't you take a seat at the witness table.

As you sit down, I am going to ask you, what are the reasons that student borrowers default on their loans?

Mr. DOHERTY. The reasons are probably many. I don't know that there has been a significant difficulty with students defaulting on educational loans as opposed to car loans.

Senator BROOKE. We have testimony and data that one out of every four loans are defaulted.

Mr. DOHERTY. And do you have testimony as to how that compares with loans made for other purposes by people of the same age?

Senator BROOKE. No.

Mr. DOHERTY. Do you have a breakdown as to whether or not students who are from a State and go to a college within the State, and then continue to reside in the State, have a different default rate from students who go to a college outside of their own State and eventually reside in yet another State? I think there could be a problem and there just does not seem to be—at least we have not found—information available to pinpoint to what extent, if it were made possible that students in Massachusetts, going to school in Massachusetts, had priority for student loans made in Massachusetts, that the default rate would be lowered, if that were true. Right now there is, in form or fact, no priority given for students who are residents of Massachusetts.

RESIDENCY REQUIREMENTS

Senator BROOKE. Well, some States have residency requirements.

Mr. DOHERTY. Which are rather minimal. Banks see a difficulty in making a loan to a student who is going to be at a college in the State and then going out of State. We have received indications from banks that that is their reason not to make loans to students from out of State. But if the student fulfills the residency requirement, if the money is available, the bank should be making that loan. The problem is that we don't have information on what the different default rates are. We don't know if the banks fears are justified and we don't know if in fact they are using that statement as a protection for some other unspecified reason.

Senator BROOKE. Well, regardless, one out of four is really pretty high, 25 percent, and in the proprietary schools it is 60 percent. I take it from what you have said that you would feel that the default rate would be much lower if there was a requirement that there be a strict residency requirement for student loans.

Mr. DOHERTY. I am not in favor of a strict residency requirement across the board. I am in favor of banks in Massachusetts being able to have priority funds available for Massachusetts students. That can't presently happen because any students that fulfill the residency requirement have equal rights to the funds.

Senator BROOKE. Wouldn't that be somewhat discriminatory and Massachusetts would be rather unique in that regard because we have so many universities, so many colleges and postsecondary schools in Massachusetts, and many of our students come from out of State.

Mr. DOHERTY. That is right.

Senator BROOKE. We have some of the best colleges and universities in the country, so they are eager to come here to go to school.

Mr. DOHERTY. And if they come from Illinois, isn't there some reason, though, to ask banks in Illinois to make the loans as opposed to banks in Massachusetts, despite the fact that it is a Massachusetts institution?

Senator BROOKE. So that if there is a limitation on student loan funds, the Massachusetts residents should receive those funds?

RESEARCH WORK ON STUDENT LOANS

Mr. DOHERTY. That is right. Can I just add that we have been researching student loans this year, and I spent some time in Washington and we spent time in Massachusetts trying to gather data, hard data, on default rates, the reasons why students are turned down, on why it is that banks are unwilling to make loans, and we have some general notions that the subsidy is not very large and the banks are not attracted by such a low rate of interest.

Senator BROOKE. Unprofitable loans, in other words.

Mr. DOHERTY. That is right. One thing that I want to underscore, that John Shortsleeve referred to but didn't bring out I think emphatically enough, is that the O'Hara bill now in Congress not only aims to make more explicit this special allowance, the subsidy, to students, and while doing so leads to a 3-percent rather than more favorable 5-percent subsidy, but it actually reduces the special allowance over the special allowance that is presently being given. There is testimony that Mr. Nestor made, Mr. William Nestor of the National Council of Higher Educational Loan Programs, before the Subcommittee on Education of the Committee on Labor and Public Welfare of the Senate, on July 17, 1975. We went through his testimony as well as all the other testimony of people at hearings this spring, and this is especially important because it shows that the net effect under the present scheme of administration would be to reduce the subsidy if the O'Hara bill went into effect, below the 1.25—I think is the present rate of the subsidy—to about .018. So the O'Hara bill is doubly bad, even though it purports to be a clarification. It is doubly bad in, (*a*) it doesn't have a high enough subsidy; and (*b*) the subsidy that it does have, when it takes effect, takes effect at a very low rate, lower than it appears in the word-

ing of the bill itself. It would decrease the funds in relation to those now available, rather than be a bookkeeping device to make things clearer.

STUDENT BANKRUPTCY

Senator BROOKE. Do you think that student borrowers should be permitted to be freed of their student loans in bankruptcy proceedings?

Mr. DOHERTY. No. I think that one of the main features of a student loan program is to try to provide an ethic of deal-keeping, of applying for credit, getting credit, keeping your promises, at a stage when a student is very concerned about getting an education, very much in need of a loan, and it is a very good time to instill——

Senator BROOKE. Well, that is the principal. What about the interest at that date of bankruptcy, due that date of bankruptcy? Do you include that?

Mr. DOHERTY. I think I would be much more willing to make any arrangements possible to allow the student to pay the interest and I would be much more willing to do what I can, especially if the economy turns down, to try to make adjustments, in light of the fact that the loan may have been made 4 or 6 years earlier, and in the light of very different economic factors, and it looks like job possibilities are rather better.

Senator BROOKE. Do you consider it a binding contract that the student should be held to?

Mr. DOHERTY. Yes, I do.

Senator BROOKE. Do you agree, Mr. Shortsleeve?

Mr. SHORTSLEEVE. I do.

REASONS FOR BANK REFUSAL OF STUDENT LOAN REQUEST

Senator BROOKE. Miss Cafarella, why do you think you were turned down at these banks? They didn't know that your father was unemployed at the time. You are not of a minority group. You are female. I don't know if that is considered a minority group, though you are in the majority. What reasons do you have? Do you really feel that the banks didn't have the money, or do you feel there is some other reason why you were denied?

Ms. CAFARELLA. I can't see any other reason why I was refused.

Senator BROOKE. Academically were you qualified?

Ms. CAFARELLA. Academically, I was very qualified.

Senator BROOKE. Did you just go to the wrong banks; 411 banks plus branches and you just picked out the wrong 4?

Ms. CAFARELLA. Well, I went to two banks where my father has accounts because I thought I would have a better chance.

Senator BROOKE. Why did you think you would have a better chance there?

Ms. CAFARELLA. Because of the fact that my father does have money in that bank, and I myself have no bank account.

Senator BROOKE. You must have heard that might be of some help, if your parents had an account there. Is that right? Did you know about that before you went there?

Ms. CAFARELLA. No.

Senator BROOKE. But you felt that would be an advantage for you?

Ms. CAFARELLA. Yes, I did.

Senator BROOKE. Now, the bank that you finally got the loan from last week, your parents do not have an account at that bank?

Ms. CAFARELLA. No.

Senator BROOKE. But you were recommended to that bank by the State agency?

Ms. CAFARELLA. The Board of Higher Education.

Senator BROOKE. Does the Board of Higher Education make recommendations to the bank?

Ms. CAFARELLA. My financial aid officer asked me to call the Board of Higher Education.

Senator BROOKE. You called the Board of Higher Education and what did they tell you?

Ms. CAFARELLA. They told me that they would try to get me a loan at Northeast Federal Savings, and when it didn't come through, they were not able to get me the loan, they got it in Waltham

Senator BROOKE. Does the Board of Higher Education actually place loans for students? There is someone here from the Board of Education and we are going to hear from him, but out of turn, could you answer that question? Is that a service that is rendered? If a financial aid officer calls the Board of Education or the student is turned down by three or more, can you then go to the Board and they will place you, like in insurance? Can someone answer that? Would you identify yourself for the record, please, sir?

ASSISTANCE FROM HELP

Mr. HOLST. I am Mr. Holst, the president of Massachusetts Higher Education. I don't think she recognizes that it was our organization and we do that quite frequently. It was not the Commonwealth's Board of Higher Education. Our corporate name is rather confusing.

Senator BROOKE. HELP. I see. So you were helped by HELP, in other words. That is how you got this, and that is not uncommon. That is a practice.

Is this generallly known—getting back to Mr. Shortsleeve's testimony—that there should be more visibility, that more people ought to know about the program, et cetera? Is this generally known, that if students encounter great difficult in getting their student loan from some banking institution, that HELP will help them, to use that expression? Does that appear at all in any printed matter for students to read so that they would know about it? Does that appear on college campuses, for example? We had a student here earlier today who testified. He was a minority student. He said that he went to three or four banks and he particularly felt that he was being discriminated against, both in New York and in Massachusetts. Some of it was racial, he said, but some of it was residential. He said he went to New York and they said he was residing in Massachusetts. He came back to Massachusetts. They said he was residing in New York. The upshot of it was, he was unable to get, and still is unable to get, a loan. Would that student know that the services of HELP are available to him? How would that student know that?

Mr. HOLST. I don't know if you want to ask us questions at this time, but it is made known to the guidance counselors in high schools and to the financial aid officers in colleges. In this case, it is the college who

recommended that the student ask our help, and we have been put in touch with them.

Senator BROOKE. So it is not the student; it is the financial aid officer and the high school counselor that has this information.

Mr. HOLST. What I have been told by the bank is that the bank actually asked that same student to come in and he did not come in. He sent friends and various other people but he did not go in himself.

Senator BROOKE. In that particular case I just was mentioning?

Mr. HOLST. Right. There is more to that case than was told.

Senator BROOKE. All right. I don't want to get into that particular case now. Thank you. But you do not put out literature which would be available in colleges and universities——

Mr. HOLST. Yes, we do. I have some of it here which I will submit to you.

BORROWING FUNDS FOR POSTSECONDARY EDUCATION

Senator BROOKE. Thank you.

Mr. Doherty, how do you feel about students having to borrow for their postsecondary education?

Mr. DOHERTY. Senator, I perhaps have a unique viewpoint on that because, when I was finishing high school, my family was in very good financial shape, and then, due to the death of my father very suddenly, the entire picture changed. I went to Holy Cross where I was student body president, and during the time I was at Holy Cross, I received substantial scholarship money. It was not loan money. I was very privileged. Upon graduation, I received three national scholarships to study and I chose to study in England where, while studying at Oxford, I noticed that students at Oxford are totally funded, not only their tuition but their living expenses and their books allowance. A very much smaller percentage of the students in England get to go to the larger universities, only about 18 percent as opposed to America's much vaster percent, and it is funded through the taxpayers.

In the United States we have a very different set of priorities. We begin by feeling that more people ought to have the opportunity to go to college and at the same time they ought to make a much larger contribution to the extent possible toward their own education. I think that while I tend to agree with the first of America's priorities, that more people ought to go to school than go to school in England, I am somewhat discouraged when I see the very heavy financial burden that many students are carrying when they finish school and venture into an economy that is not very healthy, and are burdened with a very large debt. So I am somewhat discouraged, and discouraged even more when I see that the State schools' tuitions are increasing and more students from middle-income families are finding it harder to get loans, and once a student gets a loan they are finding it very hard to get started. And this is not even taking into account postgraduate education. I am finishing law school now. Many of my law school classmates are burdened with 10,000, 12,000, 14,000 dollars' worth of debt and it is very difficult as they face a job market that has very little room for them.

GRANTS FUNDING IN LIEU OF LOAN FUNDING

Senator BROOKE. What would you do under those circumstances? Obviously you don't favor forgiveness because you have already testi-

fied on that. What do you think should be done? Should there be deferments, postponements, or what?

Mr. DOHERTY. I think a much larger share of the student's postgraduate education should be funded through grants, not loans.

Senator BROOKE. You favor BEOG programs, primarily?

Mr. DOHERTY. I am unfamiliar with that.

Senator BROOKE. Well, you do favor grants rather than loans?

Mr. DOHERTY. That is right. I think the Federal Government has to make a much larger commitment to undergraduate education as opposed to research efforts. If expenditures for education have to be reoriented because there is not sufficient funding coming from outside, then I would even be willing to go so far as to say that more money ought to be available for undergraduate education, even to the extent of pure research because I think that some drastic steps have to be taken.

SUPPLEMENTING OF TUITION FUNDS

Senator BROOKE. Miss Cafarella, what is your loan amount?

Ms. CAFARELLA. $1,500.

Senator BROOKE. Is that an annual loan?

Ms. CAFARELLA. Yes.

Senator BROOKE. Will you be working at all during your junior year?

Ms. CAFARELLA. Yes.

Senator BROOKE. So you will augment that $1,500. What is your tuition?

Ms. CAFARELLA. $3,900.

Senator BROOKE. Will your work plus your loan be sufficient, or will you have to get other funds?

Ms. CAFARELLA. It won't be sufficient.

Senator BROOKE. Where will you get the remainder?

Ms. CAFARELLA. What I will do is, I will have a full-time job probably at a semester break, because right now I am only working part time, and with summer employment.

Senator BROOKE. Are you eligible for BEOG?

Ms. CAFARELLA. I am not familiar with that.

Senator BROOKE. I am amazed at the number of students who don't know anything about BEOG. It is very, very interesting. Why don't you look into it? See if you are eligible for it. I don't know that you are eligible. That is a grant program, basic educational opportunity program.

Ms. CAFARELLA. Oh, I did. I am not eligible.

Senator BROOKE. What are you studying?

Ms. CAFARELLA. Speech therapy.

Senator BROOKE. You are out of school, Mr. Shortsleeve, is that it?

Mr. SHORTSLEEVE. I have a year left at law school.

Senator BROOKE. And Mr. Doherty?

Mr. DOHERTY. I am a third-year student at Harvard Law School.

Senator BROOKE. Are you taking business administration as well? Are you under that program?

Mr. DOHERTY. No. I am in a program in the economics department, continuing economics that I studied at Oxford.

Senator BROOKE. Thank you very much. I am very grateful to you.

Next we have the Massachusetts HELP agency. We will hear from the Massachusetts Higher Education Assistance Corporation, otherwise known as the Massachusetts HELP agency, on guaranteed student loans. Massachusetts HELP is one of a number of State guarantee agencies around the country. By law, the loans which these agencies insure are reinsured by the Federal Government. In the instance of a default on the loan, the Federal Government reimburses the State agency for 80 percent of the default claim that is paid. Thus the HELP agency is a major factor in the student loan field in higher education in Massachusetts. I believe it can have a big impact on the availability or nonavailability of funds for student loans. Our witnesses are Mr. Helge Holst, president of the agency, and Joseph Cosgrove, treasurer. Both of you are welcome and you may proceed.

If you have lengthy statements I will ask you to summarize the statement because I have a number of questions and many of them I am going to have to submit to you in writing and ask for your response in writing for the record, but we do have many other witnesses and we have just about an hour or so left.

Massachusetts Higher Education Assistance Corporation

STATEMENTS OF:
JOSEPH F. COSGROVE, TREASURER
HELGE HOLST, PRESIDENT, MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORPORATION

ACTIVITIES OF HELP AGENCY

Mr. Cosgrove. My statement is very short, Senator. The Massachusetts Higher Education Assistance Corporation distinctly appreciates this opportunity to make comments to you about the present Federal student loan program, and to fill you in very briefly on our own HELP organization. Massachusetts Higher Education Assistance Corporation was incorporated in 1956 and is the oldest public student loan program in the United States.

When the Higher Education Act of 1965 became law, it called for an agency in each State to be organized to administer the law. When the Office of Education was ready, Massachusetts was the first State to sign the agreement with the Office of Education to administer loans under Public Law 89–329.

We were fortunate at that time to be invited to Washington to assist in writing the regulations governing the program, most of which embodied regulations already in force under our own Massachusetts program.

HELP LOANS AND DOLLAR VALUE

Since June 1966, the Massachusetts HELP program has guaranteed over 200,000 student loans with a dollar value of $225,579,000, and now ranks sixth in the nation in volume. At present we enjoy 348 lenders which, with their branches, expand to 873. These lenders embrace commercial banks, savings banks, cooperative banks, savings and loan associations, together with credit unions. We have given you the above information to show that the following comments on the present pro-

gram have been arrived at through our actual long experience in all phases of a student loan program.

VALUE OF FEDERAL STUDENT LOAN PROGRAM

No. 1, it is our opinion that the Federal student loan program ranks side by side with any of the great social programs now in vogue, such as social security. Since 1965, 8,215,000 students have received loans totaling $8,353,988,000 as an aid to their higher education. If we are to place higher education close to the top of our national priorities for the welfare of the country, what greater monument to actual acomplishment could we have?

No. 2, there are, of course, we believe, certain improvements which can be made in the student loan program, to implement even greater success in the end result. Recently it has been clearly shown that there is room for improvement in the accreditation of schools, to make them eligible for their students to receive loans. The whole system of accrediting proprietary schools needs, in our opinion, a thorough renovation. Also, much stricter attention is needed in the policing of these schools after they receive accreditation, to be sure they are following the rules and regulations which their accreditation calls for.

We mention particularly that they have adequate faculty and facilities for any program listed in their brochures, as available to students who enroll. We also advocate complete elimination of commissioned agents for procurement of applicants for enrollment. There should be adequate financing for successful completion of the schools' objectives.

No. 3, we are sure that the sponsors of the Higher Education Act of 1965 never believed that the loan program this bill created would ever expand to the enormous size which we have at the present time, and which is certain to grow greater and greater as our youth enrollment for college also continues to be greater each year. The actual handling of the financing of the entire program is really composed of straight business transactions and has nothing to do with the academic aspects.

Every well established business, large or small, carries in its budget an amount for bad debts. This amount is arrived at from a realistic approach to the facts of life, to the fact that there is grief at times in all business enterprises. Practically every separate industry in the United States has an association which individual members can use for information. One of the most valuable sources of information is the norm for bad debts for that industry, which advises a member whether or not his own particular organization is going beyond the usual percentage for bad debts.

Until the Department of Education arrives at what would be considered a fair average norm for defaults, we will never eliminate the wild statements which appear almost daily, attesting to the fact that the student loan program is a failure because students borrow money and never intend to pay it back. Figures to date indicate that a 7- to 8-percent default in State programs seems to be average. If that is so, it would mean that 93 percent of all students who borrow pay back their loans.

We think that the Department of Education becomes panicky because the sum of money entailed in defaults has become such a large

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figure, while they forget that the program has sales figures of over $8 billion since its inception.

NATIONAL AVERAGE DEFAULT RATE

Senator BROOKE. Mr. Cosgrove, where did you get this 7- to 8-percent default, other than here in Massachusetts? From other States?

Mr. COSGROVE. From Washington.

Senator BROOKE. The national figure?

Mr. COSGROVE. No, the average figure—for State. This is separate from the Federal figure on Federal loans.

If we can establish what seems to be a normal percentage for defaults, we could center only on those sources of loans whose percentage rate is far above normal. We truly believe that if the now famous Jack Ackley phrase of "You must use due diligence in the giving of loans and collecting of defaults" is put into operation, it will be possible to reduce the present rate of defaults.

No. 4, at the present time, the Government rebates to the guarantor, 80 percent of the sum he pays to the lender if a loan goes into default. Without this help from the Government, many agencies, of course, would be forced to cease operations at once.

We advocate, however, that an agency be reimbursed, not 80 percent, but 100 percent on a default, which would enable the agency to become completely free of any anxiety as to the depletion of its guarantee fund.

However, we also advocate that the Department of Education tie in the 100-percent guarantee with a very strict use of the due diligence feature mentioned above.

In closing, in case somebody should ask how do you define "due diligence", we are taking the liberty of quoting the following definition which comes right from Mr. Ackley himself. "The requisite policies and procedures to assure that all reasonable effort has been effected in the making, the servicing, and the collecting of the guaranteed student loan."

The staff of the Massachusetts Higher Education Assistance Corporation will be only too willing to answer questions or give advice, if asked, to anyone, about the guaranteed student loan program.

FEDERALLY INSURED AND REINSURED LOAN POSITIONS

Senator BROOKE. Mr. Cosgrove, from the Library of Congress Congressional Research Service, the federally reinsured portion which is what you are concerned with, in 1974 it was 5 percent; in 1975, 7.4 percent; fiscal 1976, estimated at 10.5 percent. That's the reinsured.

Mr. COSGROVE. My information differs from that. I don't know where they got it from, but it came right from Washington yesterday.

Senator BROOKE. The federally insured portion is 19 percent. The federally reinsured portion is 10.5 percent.

Were you here when Dr. Silber testified?

Mr. COSGROVE. Yes.

Senator BROOKE. I take it you disagree with Dr. Silber in the direction in which you are going at the present time. He would reduce or eliminate the loan program and go to the grant program. He feels it is

burdensome upon the young students, graduates, who may be harnessed with $7,000 or $14,000 debts as they start life, and other reasons he gave. I won't repeat it all. And he says it has been a failure. You obviously say it has not been a failure—the program has not been a failure.

I quite agree with you on the default, we can't just go on that in determining the success or failure of this legislation. Why do you think it has been a success?

Mr. COSGROVE. I think Dr. Silber forgets the fact that that money would have to come from somewhere, as it does in the student loan program. I happen to know that Boston University is a very heavy participant in our student program, and the loans range, as you know, from $1,500 up to $2,500. I don't know where Dr. Silber feels that would come from, that income that is coming into B.U., if it didn't come from the student loan program.

Senator BROOKE. It would be grants.

Mr. COSGROVE. Yes. It would be U.S. Government and taxes. I think anyone in Dr. Silber's position should have a little regard for the taxpaying public.

Senator BROOKE. Mr. Holst, do you have a statement?

Mr. HOLST. No, sir.

SUMMARY OF HELP ACTIVITY IN LOAN PROGRAM

Senator BROOKE For the record would you briefly summarize how the organization you represent fits into the loan program?

Mr. COSGROVE. Well, as I mentioned, the program was organized in 1957 by 50 of the most prominent men in this State, principally to help students go to college and get their degree. They quickly found out that the credit of the State couldn't be used for the individual, so at that time these 50 different men who became directors came up with a plan for the banks of the State to participate in lending money that could be guaranteed by our organization, and at that time we established a 12-percent reinsurance fund in our organization as collateral for the banks making these student loans. We went along in the normal way until 1966 when the new Government program came, and when they required an organization such as ours to be in every State in the union, we immediately were appointed by Governor Volpe, I think it was at that time, to be the agency in the State of Massachusetts to represent Massachusetts with the Federal Government on the program. That was when I was called to Washington to help write the rules and regulations, which are principally the same today as they were then.

DIRECT CONTACT WITH STUDENTS

Senator BROOKE. Do you have any direct contact with the students?

Mr. COSGROVE. Yes. Not all the students get the loans. We have contact with many, many students that come into our office—who have either been sent there or come in for information about the program. If I may elaborate on that for just a minute—because I sat here all day long listening to statements that are definitely not so according to our own situation of $225 million having been given to kids.

I can't recall one single student that came into our office to get a loan, for any reason, that didn't receive it, provided he was eligible to

receive the loan. And it works like this, of course, all over the State. The enrollment I think of higher education students in Massachusetts is about 225,000. I heard you mention 300,000 this morning, and I am not going to dispute that figure, but the Department of Education furnished me yesterday with the 225,000 figure. Of course it is possible in that many instances that some one youngster or two youngsters, here and there, or three of four youngsters, would have difficulty in getting their loans, but it is mostly because they don't know how to get them and principally because the financial aid officers in the colleges are negligent in the way they give information to these kids, because every single financial aid officer in the State of Massachusetts knows that if they get in touch with our office they have never been turned down on getting a loan provided the kid was eligible all along. So when I hear these various people testifying about all their trouble getting loans, I don't buy it.

Senator BROOKE. I just want to give you the source, not that I want to belabor the point about the number of students here. The HEW computer gives Massachusetts 309,442 students.

Mr. COSGROVE. I imagine that embraces proprietary schools and anybody who might be classed as higher education.

Senator BROOKE. It is a lot of students.

Now, you had a statement you wanted to make, Mr. Holst?

Mr. HOLST. Well, you had some question. I wondered if you wanted it answered now.

Senator BROOKE. Yes; I wanted you to clarify that.

RECRUITING OF LENDERS IN PROGRAM

Mr. HOLST. Do we actively recruit lenders into the program? You asked, among other questions, was the number of participants in the program, lending participants, larger or smaller? The answer is—larger—and the number of loans has been larger usually by 10 or more percent, and this year will be 10 percent more than last year. And the dollars have gone like this—in 1972, $25,548,000; in 1973, $29,700,000; in 1974, $35,500,000; and this year we are at more than 10 percent ahead of last year.

We do not have evidence of a large unmet need, and the financial aid officers know us, the student counseling people know us, the lenders know us. We do not deny that there may be some who give up, but it cannot be large in number.

DISSEMINATION OF INFORMATION TO STUDENTS

Senator BROOKE. Well, are the financial aid officers doing a good job in disseminating this information to the students, Mr. Cosgrove?

Mr. COSGROVE. There isn't any question, sir, that some of them are. In the larger colleges where there are professional student aid advisers, I think they do a pretty good job, but we have many financial aid officers all over the State, all over the country in fact, who are football coaches, baseball coaches, or something like that and they couldn't care less about sitting down with a youngster for half an hour and giving him all this information. They haven't even got it, probably. So by and large, I think what we ran into 2 years ago, when it

failed, because all applications were sent to the financial aid officers to be evaluated and then a recommended amount comes back, which was the amount you could give and no more—the dropoff rate on loans was terrific. I have to say this. Edith Green, who was the principal advocate of that particular system, I sat in her office one day and I said: "It will never work. We'll have a tremendous drop in student loans." She put her arm around me and she said, "It will work out, Joe. It will work out." But it didn't work out, and that is when the President had to call that emergency meeting for an amendment. I think that is proof enough that financial aid officers haven't got the expertise to definitely advise just what a youngster should have from the income that comes into his family. We had cases where a family had $9,000 and they recommend that $5,000 should be spent on the student's college education.

TRAINING PROGRAM FOR FINANCIAL AID OFFICERS

Senator BROOKE. We had financial aid officers before us this morning. Admittedly they were from excellent schools and I thought they were very impressive witnesses and very knowledgeable about their work. What sort of training do we have for financial aid officers?

Mr. COSGROVE. I don't know. I don't know whether you can go to college and take a course to become a financial aid adviser in a school. I don't think you can.

Senator BROOKE. It is not like in the days when I was coming along, when they had these guidance counselors. There was a lot of politics. They would give it to anybody who was friendly with the principal and knew absolutely nothing about guidance counseling. They would tell you if you were an artist that you ought to be an engineer. If you were good in mathematics they tell you you ought to be a basketball player or something else, or go into nursing, or something or other. Is that the way it is done with financial aid officers?

Mr. HOLST. We have participated, at the request of Mr. O'Hare—we did participate in a statewide program with the financial aid officers from all over the State.

Senator BROOKE. Is that the one that Mr. O'Hare mentioned?

Mr. HOLST. It is the same one, yes. We regulated those kind of things for banks, and we train bank personnel and we distribute written instructions whenever it seems worthwhile. We carry on an extensive program for the lenders, but we have not in the past had the same kind of program because we have not been involved with financial aid officers, but they have an association of their own, both a national and a State one. They apparently sometimes have differences of opinion among themselves, but they do have associations and they could carry on training programs.

Senator BROOKE. It seems to me that if you just have a program to train the members that you are only treating the patient for 50 percent of his needs.

Mr. HOLST. Well, it is a question of whose responsibility it is.

Senator BROOKE. Whose responsibility is it?

Mr. HOLST. We have taken the responsibility because we existed prior to the Higher Education Act of 1965, of enlisting lenders as lenders, and of getting them to do the right things in the loan program.

Senator BROOKE. What good is it if the student isn't getting the information through the financial aid officer—if that officer is not qualified, is not equipped, has no knowledge, and as Mr. Cosgrove has said, probably doesn't have the data, doesn't even know of the data—how can he serve that student?

Mr. COSGROVE. If you will pardon me for saying so, Senator, I think that is the duty of Congress not to make these rules and regulations that entail these financial aid officers in doing something—a job they cannot do. I would say that the way you could get around that would be to have stiff rules and regulations out of the Department of Education as to the duties of a financial aid officer and hold colleges to that. Just like I said in my little talk, you have to have policing on these folks. I think you have to have policing done in the colleges for financial aid officers if they are going to be given the authority to determine the amount of the loan. And incidentally, I must clear this point up, too, because I heard this in testimony this morning—as though the amount that was recommended by a financial aid officer was it for a loan—and that isn't so any more. That has been changed since that amendment. Now they can recommend, but if the bank wishes they can override a financial aid officer, provided they get in touch with the financial aid officer and discuss it with them. But even if the financial aid officer says no, the bank can say yes and give it. Because, why not? The bank has no obligation at all to say no in regard to what they are going to get out of it, because they can't possibly lose a 5 cent piece if they give it.

INCREASE OR DECREASE OF APPLIED-FOR FUNDS

Senator BROOKE. Can they decrease it and increase it?

Mr. COSGROVE. Well, usually the applicant is satisfied with what he applies for, so they probably wouldn't increase it. They might call a youngster in and say, look, you want $2,500. Can you get along with $2,000? And the financial aid officer might have said they should have $1,200. They get the youngster to take the $2,000.

Senator BROOKE. Mr. Holst, I believe you referred before to that Friedman case.

Mr. HOLST. Yes. I do want to say that although we are here explaining a loan program, we have never advocated that students load themselves up with the maximum in loans. We try to be counselor to the student, too, that he should work during the summer and possibly during the year, that he should get any scholarship assistance he can that is not repayable, and a loan is only part of a package. Not a maximum amount, because we too have nightmares over a husband and wife each owing a very large amount. But that is not actually what has been happening. The average loan is still just under $1,500 and we have not had as yet any of these dreadful cases where each owes $7,500.

COMMUNICATION AMONG LENDERS AND ADVISERS

Senator BROOKE. Before Mr. Holst answers that question, Mr. Cosgrove, I just don't want to see the financial aid officers over here, the lenders over there and HELP over here; or even financial aid officers

over here and you and the lenders over here. I think you are going to have to have more communication and cooperation if that student is going to be best served.

Mr. COSGROVE. If you can get it, Senator.

Senator BROOKE. Why can't you get it?

Mr. COSGROVE. Well, when you went to college you would have half a dozen professors. You had one that was great or maybe two or three that were great, and somewhere down the line you had one that was for the birds. Same thing in almost every organization or industry. It's the same in Senators. Now, we think a lot of you, and Ted Kennedy, too, but I think there are some Senators down there who are not so good.

Senator BROOKE. I understand that fallibility argument, but I am not talking about individual financial aid officers who may not be doing their jobs very good, or even a lender or student, for example, or somebody in the HELP organization, heaven forbid, but still—I can understand that. But what I am trying to say is that these are the three we are concerned with—the lenders, your aid organization and certainly financial aid officers working together to help the students. And I want to be sure that that student knows what is available to him.

Mr. COSGROVE. Maybe the financial aid officers ought to have a seminar someday and develop some courses that the whole crowd of them could go to, to learn to be real honest to goodness financial aid officers.

Senator BROOKE. You don't want us to regulate any more than we do. We are trying not to have too much bureaucracy, too much paperwork, but can't some of this be done by the existing organization and under the existing legislation?

Mr. COSGROVE. Well, you say you would like to get 100-percent efficient financial aid officers, and so would we. I don't think we ever will, but I do know that there are enough of them that could teach the others what they should do, if they would get together and realize that they weren't holier than God, that they had something to learn.

VALUE OF STUDENT LOAN PROGRAM

One statement I would like to make, and I don't want to take up any more of your time. I think the student loan program is the biggest boon to universities and colleges, let alone the students, that ever came along. Where would they be without the income that they get from the student loans—$8 billion worth in the last several years, and here they are at the table planning the program.

Senator BROOKE. Yes, but at the same time, I think, and all due respect to Dr. Silber, he did say they would be in a bad position if they didn't have it. No question. He would just like to see it in another form. They want the money, but he just wants to see it in another form. I don't think he wants to turn back the money. He doesn't want to owe it out. He says it ought to be a grant.

Mr. COSGROVE. One final statement, with regard to banks. We have no argument and no quarrel with the banks in Massachusetts at all. When they come up with $35 million to $40 million a year for student

loans on a program which—again I don't agree whether or not they profit or not—a statement made by a gentleman this morning—that they lost money—if that is the case there are a lot of damn fools as bankers in the State of Massachusetts because they give us $40 million a year and they have given us $225 million over the last 9 years.

Senator BROOKE. Do you think it is profitable, or what?

Mr. COSGROVE. I think it is profitable, yes. Not really profitable, you know, like they get at interest of 18 percent, but this loan program was never intended to be a profitable one. It was an even break proposition. The original concept was to help your fellow man, to get these kids into college, and now all of a sudden the whole darn thing has developed into "We don't make any profit on these loans"—well, if they get an even break I think they should be satisfied. If they get a profit, more power to them.

Mr. HOLST. Senator, on Friedman, you asked me to say something about that. But before I do, I think you may be quoting Mr. Spiller as having said that one in four student loans goes into default. I don't think that is what he said. He said the default rate on student loans was about 8 percent, which was four times worse than the default on prior loans.

Senator BROOKE. That is nationally you are talking about?

Mr. HOLST. Well, at any rate I don't think you are quoting Mr. Spiller if you are saying that he said that one in four goes into default.

Senator BROOKE. I don't know that I gave him credit for that statement. That is the figure that we have.

COMMENTS ON FRIEDMAN SITUATION

Mr. HOLST. All right. On Friedman—I said there was more to it than appears. First of all, as you yourself got out of him, his real residence is in New York. He is only here because he is a student and each of the States has taken the position that they are best able to administer loans when they are made to their own residents. Defining residents in various ways, but essentially trying to serve their own citizens whether they go out of State or not. We, too, in Massachusetts feel that it is best, we feel that it is a key point, that the loan should be made by the borrower's own normal credit source; the source that knows his family, knows him, can really judge what the need of the family is, can keep up with changing address, which is possible; and if he goes out of State later on, again keep up with that. If the loan is made in that way, there is much less likelihood of default because, first of all, the student or the family knows the bank and sees the bank frequently in the course of their regular dealings. So we think that this is a cardinal feature. That is not accomplished if you make loans to people from out of State—if Massachusetts banks make loans to people from out of State, and then those students leave the school here and go out of State. So Friedman properly, I think, is a New York resident. In addition to that, Friedman has previously dropped out of school and I do not wish to be the authority on this, but I have been told that he has defaulted on some various other loans, and all of those things make it difficult getting the loan.

Senator BROOKE. Were these other loans educational loans?

Mr. HOLST. I think it may not be educational. I do not know. But the banks have looked him up and do not find him a satisfactory credit risk, as well as his being a doubtful academic risk, and in addition to that, very possibly not properly a Massachusetts resident. Not that there is anything improper, but it is only a school residence, not a permanent residence. So his is not a straightforward case where a loan would have been made automatically as a student walks in, as most of the 25,000 loans are done. We hear of only a few loans, but the great 90-or-more percent get the loans right off the bat with no problems.

ALLEGATIONS OF RACIAL AND SEXUAL DISCRIMINATION

Senator BROOKE. Have you had any problems with allegations of racial or sexual discrimination in the granting of these loans?

Mr. HOLST. No; not at all.

Mr. COSGROVE. Down in Louisiana, I think 75 or 80 percent of the loans are given to minorities.

Senator BROOKE. Do you have any percentage of the loans given to minority students in Massachusetts?

Mr. COSGROVE. We have it but I haven't got it here.

Senator BROOKE. Would you supply that for the record?

Mr. COSGROVE. Yes; I would be glad to.

Senator BROOKE. And would you also break it down into loans given to females?

Mr. HOLST. I can give you the female figure. It is about 45 percent.

Mr. COSGROVE. We can also give you, Senator, the information as to—I heard testimony this morning about the middle-income person not getting loans. That definitely is not so.

Senator BROOKE. Do you have it broken down by economic——

Mr. HOLST. By income, and that will belie the business that the person with low income cannot get a loan. They positively do get loans.

Senator BROOKE. Thank you.

Next we will hear from the Board of Higher Education in Massachusetts. Our witness is Mr. Grant Taylor, vice chancellor for student affairs. Mr. Taylor, you are most welcome. You may proceed.

MASSACHUSETTS BOARD OF HIGHER EDUCATION

STATEMENT OF GRAHAM R. TAYLOR, VICE CHANCELLOR FOR STUDENT AFFAIRS, MASSACHUSETTS BOARD OF HIGHER EDUCATION

ACTIVITIES OF BOARD

Mr. TAYLOR. Thank you, Mr. Chairman. I will try to be brief. I am here today at the request of the regional staff of the Federal guaranteed insured student loan program to represent the board of higher education at your hearing. We appreciate the opportunity to be of whatever help we can in your deliberations.

My comments will be brief, both because you have requested that they be so, and more importantly, because our relationship to the Federal student loan programs is indirect. The Massachusetts Board of Higher Education is the planning and coordinating agency for public higher education in Massachusetts and, in addition, the board ap-

proves all new degree programs in the public sector, approves new degree authority in private institutions where degree powers now desired did not exist in charter authority prior to 1943, and is the State approving agency under contract with the VA to approve programs for eligibility for the GI bill.

With respect to this committee and your hearings, another operational responsibility of the board is, I suspect, most germane. We administer the State scholarship programs in Massachusetts, including the matching money available through the State student incentive grant program. The scope of this operation annually is now 50,000 applications, 20,000 awards, and $12 million. We are, therefore, directly in student financial aid, in its availability to students, and in the student access to higher education. Access to credit is necessarily a part and an important part of this picture.

OBSERVATIONS BASED ON DEALINGS WITH STUDENTS

From that perspective then, we would make these observations on the basis of limited dealings directly with students because we are not staffed to deal with students directly. We have a staff of 8 people to deal with 50,000 applications, but we have extensive contact with student financial aid officers.

One, obviously, substantial credit is available to Massachusetts students, $40 million through GILP and another $15 million through NDSL, and that doesn't count the recycled money coming back to be reloaned.

Two, access to the guaranteed program—from our experience, and this reflects what students bring to us who are having problems—it does vary geographically; it varies in freshman versus upper classman; it varies in terms of account holders and non-account holders, for example. I am sure you have heard all this before this morning.

Three, commercial lending institutions are not always as flexible as the colleges are regarding loan amounts. There is a tendency to grant loans perhaps too large or too small. Our hunch here is that the banks probably don't like to process all the paper for loans of $300, $400, $500 or $600, which is very common under NDSL.

The lack of a printed, widely distributed list of participating lending institutions in GILP makes student access more difficult than ideally could be the case. You have heard on that from the students, and we would concur. I know the financial aid officers concur on that, that such a list would be helpful. It won't solve all the problems of access, but it would be helpful.

Students often do need assistance, as the lady from Regis indicated, in locating a lending institution willing to consider them. It is our experience that when such cases are brought to the attention of the Higher Education Assistance Corporation, that an available lending institution can usually be located. In this lady's case, that was true. She may have called us. Had she called us, we would have referred her to Mr. Holst and Mr. Cosgrove. It usually works that the aid officers, I am sure, have referred far more individuals than we have and can give you a better idea of the percentage of success on such referrals.

SALLIE MAE OPERATION

We wonder about the apparent delay in Massachusetts in participation in the Sallie Mae operation. Failure to participate in Sallie Mae must necessarily hurt both lending institutions and students.

The ability of institutions to grant loans through NDSL and/or FISL is desirable and should be continued. Institutions can be flexible regarding such matters as loan amounts, timetable, student status and bank affiliations, et cetera.

But the fact still remains that the gross contribution of HEAC and its lenders should be recognized. It is in the $40 million bracket now and this money, regardless of the various problems associated with it, and we all—and I am sure Mr. Holst and Mr. Cosgrove agree that there are some problems here and there—indirectly that assists all other student assistance efforts because it absorbs that degree of the gross demand.

VISIBILITY ISSUE

I would like to talk now on two other issues, follow them up, if I may, because they are germane. On the visibility issue, we feel—and we have discussed this with HELP—and I think they have reasons why they feel a list of lending institutions may not be either effective or desirable, but they will have to answer to that. We all feel a list would be helpful. Individual aid officers in isolated cases have gotten a list of lending institutions in certain geographical parts of this State, but that doesn't address this whole problem.

TRAINING UNIT

The financial aid officers have a training. The Association here in Massachusetts has a training unit. They do make real efforts to conduct training. So does the regional office of the college board run training workshops for financial aid officers. The dilemma in any such training effort is the same dilemma you face with guidance counsellors. You can run workshops as we have on BEOG in the State, through three of the eight offices under contract with OE, and you get certain guidance counsellors who come and others who don't come and no matter how many workshops you run they won't come. You run a workshop on BEOG for example, and these other student aid programs are covered in some degree, and maybe one person from a large city school system will show up from the central office. You never know whether that information filters down to the operating guidance counsellors.

Those who run those workshops—Sue Horowitz, who was here this morning, has been involved in those. She could tell you all the details. But we have been concerned about the distribution of invitations for those workshops, which is now on three cycles. We have had the commissioner of education notify all the superintendents and point out the urgency of those workshops and the importance of them, but still x percent of secondary schools show up, and it just is inevitable in any kind of mass operation.

ENROLLMENT FIGURES

The enrollment figure question came up. Joe Cosgrove got those figures from us yesterday. The figures I was trying to give him were full-time, undergraduate and graduate enrollment of Massachusetts residents in higher education. I suspect the figures you have represent enrollment in Massachusetts institutions and we are an in-migration State, so on that basis you have to reduce some of those figures and I was excluding the part-time students. If you add the part-time students in, it would move from 225,000 up toward 300,000, particularly if you add the non-Massachusetts students here in the State.

I would stop there because you may have some questions.

OPPOSITION TO SALLIE MAE OPERATION

Senator BROOKE. You are the second or third witness that has called our attention to the injury done by the failure to participate in Sallie Mae. Maybe I should have asked Mr. Cosgrove this when he was here, as to why they are in opposition to participation in Sallie Mae.

Mr. TAYLOR. This has only come to my attention recently. I cannot detail the reasons. I think we all assume the Sallie Mae operation is certainly in the interest of the lenders, to recycle the money, but there may be a loss, a potential loss, of direct contact with the borrowers—between the lenders and borrowers. I can't comment on that, but it does mean that the lenders' portfolios are not replenished and to have that money available for more loans.

Senator BROOKE. There would be more money available, it would seem to me. Mr. Cosgrove, you are still in the hearing room. Do you want to speak on that?

Mr. COSGROVE. Yes. I think you would like to have me say this because our agency does definitely oppose certain concepts of Sallie Mae. We do not object to Sallie Mae as the original concept for forming Sallie Mae. In fact we talked that Sallie Mae over 3 years before they formed it and I was all in favor of it.

The reason we don't favor it now, or certain concepts of it, is—the original concept was that they had to put the money back within two years into student loans. Now they want to go out and buy these loans and there is no provision at all for putting any of that money back. When they say to me, "They're going to do it. They're going to do it." I am not that naive. If they are going to put it back in, what do they want to get rid of it for? See? That is why we are protecting the Massachusetts agency. We don't have any axe to grind with the Sallie Mae if they are going to injure our particular program. Does that make sense?

WAREHOUSING OF LOANS

Senator BROOKE. Yes. But have you made recommendations as to what provisions——

Mr. COSGROVE. They can get all the money they need by warehousing their loans, which we are in favor of. They don't have to sell them.

LISTING OF LENDING INSTITUTIONS

Senator BROOKE. Why don't we have lists of lending institutions? Why is that not available? I think Mr. Taylor is the second witness, if not the third witness, who has called to our attention the lack of a list of lending institutions that are available for student loans. It seems to me that that would be a great service to the students. Why don't we have that? What is the opposition to that? What is the reasoning behind it?

Mr. COSGROVE. We have no opposition, as I said before—if banks are up to the hilt in loans, see, that would get them more money.

Senator BROOKE. But I meant, if you published a list of banks from which student loans could be obtained, banks that are in the business of making student loans, so that students would know there were *x* number of banks that they could go to and receive student loans, what would be wrong with that?

Mr. COSGROVE. Elaborate on that a little bit, will you, Senator?

Senator BROOKE. Well, it was testified this morning, and Mr. Taylor has said again here, that lack of a printed widely distributed list of participating lending institutions in GILP makes student access more difficult than ideally could be the case.

Mr. COSGROVE. Well, the main reason we don't distribute a list of banks who are making these loans up in Springfield to somebody down in Cape Cod is because we don't think they will be used. Now, any student is going to get all of the banks in his particular locality, and this is one of the things that the student aid officers ought to tell them. We gladly furnish that. We had a list of all the lenders in the State by geographical location.

LOCAL BORROWING SEEN AS PREFERRED SYSTEM

Senator BROOKE. Why should it be restricted? Suppose I live in New Bedford and I wanted to get loan from a bank in Worcester, Mass. What is wrong with that?

Mr. HOLST. I will try to handle that one, Senator. We believe that you will get most knowledgable lending and best repayment and therefore least default by students borrowing from their own regular family sources of credit, and the opposite is true if——

Senator BROOKE. Yes, but a student may not have a family that has any banking credit.

Mr. HOLST. No; and we will give the statistics showing that it still works. But if he doesn't—and that little brochure says, "then go to another source in your own neighborhood," not way out of the neighborhood.

Senator BROOKE. There is no prohibition in the law, and I can't see why one is cropping up, that would prohibit the student—and I can understand your residency requirements in trying to take care of that where Massachusetts has a residency law—that you well explained. But I cannot understand a Pittsfield student not being able to get a Boston loan if that Boston bank is willing to make that loan, and I can't see the danger of listing, say, the names of banks that are in the

business of making student loans within the Commonwealth of Massachusetts, and a student can look at it. I think it is much more reasonable to expect that the student would seek a loan first from the bank within his own neighborhood, for example. But if he can't get it, he might find that there is money available at another bank in another community, for example, and go to that community to get that loan.

Mr. HOLST. As you were told, there are 400 or so lending organizations in the program. There are 870 some odd branches. We have tried, and we think we have very nearly succeeded in making it possible for a lender to be able to walk to a place where he can get a loan, and if the first place that he walks to doesn't produce, then he can still, on his feet, get to the next place, and we like to distribute the load in that way because we think it is a more knowledgeable loan. We particularly think that repayment is much more likely and the difficulty in finding the student, if the student does not in fact keep the lender informed of his whereabouts during school or especially after graduation, that that will be very much reduced if it is the usual bank——

RESTRICTIONS ON OUT-OF-AREA BORROWING

Senator BROOKE. Don't you see, you are further combining—you don't want him to go outside the State and now you don't want him to go within the State beyond the geographical area. You seem to me to be restricting the law which was never intended by Congress to be restricted. We want it repaid as well, and maybe you are right. Maybe they can better service that loan in a certain geographical area, but if you do it within the State itself—what would you do in a small State like Vermont, for example.

Mr. COSGROVE. Senator, if this is a major issue, with whoever are advocating it, and so forth, we will furnish a list.

Senator BROOKE. I am advocating it right now, not just Mr. Taylor. I am advocating it because I haven't heard any persuasive evidence that it is wrong. I have a lot of evidence that it is good.

Mr. COSGROVE. All right. Supposing we do it. I say right here now, that there will be no interest at all given in Cape Cod to a kid up in Springfield or Holyoke getting a loan.

Senator BROOKE. I am not going to argue that point with you. That might be true, but no banker so far has testified that they don't want—it is known that they are in the business—I mean, they are not ashamed of being in the student loan business by any means.

Mr. COSGROVE. No. Many of them are proud of it.

Senator BROOKE. Certainly. I should think so. "It is a civic responsibility and we do it as a civic responsibility," was said by one banker.

Mr. HOLST. But they do prefer to serve their own area.

Senator BROOKE. They also prefer to serve their own customers. Mr. Holst, and I don't want to see them limited to that. I don't think you do either, want to see them limited to that.

Mr. HOLST. No. We will give you the data that that is not so.

Senator BROOKE. Well, could we have the list? Is there any objection to the compilation of a list? If not, I would like to ask you to submit it for the record.

Mr. COSGROVE. May we append to that list a list of the reasons why we don't think it will work?

Senator BROOKE. Fine.

Mr. COSGROVE. You never will get these banks in Cape Cod to correspond or see or anything else with a student from another area of the State, say up in Holyoke.

Senator BROOKE. All right. Let the bank make the final decision as to how they will give the loan, but let us give the service to the people and say, "Here are the banks in this State that are available for student loans."

Mr. TAYLOR. Senator, on this, it seems to me that such a list would help a student sort himself out in his own area. He can see how many banks are within a radius of 15 or 25 miles and go there first. That is the way the whole program works. That is what he is supposed to do first.

Senator BROOKE. If he is bright enough to get a loan he ought to see that very quickly.

AID OFFICERS

Mr. TAYLOR. Also, before I leave, about the aid officers. There were some pretty harsh statements a few minutes ago, and it just isn't fair. We've got a good group of aid officers in this State and a good association. There are always some new ones. There is some turnover there. The aid officers hope to move up in the institutions and one of their frustrations is that they think they are not sufficiently appreciated and some of them have been in the business a long time.

Senator BROOKE. Well, it is an important job.

Mr. TAYLOR. It is a darn important job, and they are good and they are not unknowledgeable about the way this program works.

TRAINING PROGRAMS FOR AID OFFICERS

Senator BROOKE. What sort of training do they get? Mr. Cosgrove has given testimony, but I am trying to find out—I haven't heard of any seminars for them, any workshops for them, really, any training program for them? I think Mr. Cosgrove is right. I don't know of any, no text book, no courses, or anything like that.

Mr. TAYLOR. Well, there have been experiments. The Regional Office of the College Board has offered a couple of seminars for which they have tried to get credit at Northeastern, but regardless of the credit aspect of it, every year the regional office of the college board runs at least 1-, 2-week intensive workshop—has directed it to the financial aid officers. It is run in July or August when new people tend to be on board. There is a fee for it, and some colleges may not want to pay the fee. It is modest. But that sort of a seminar is particularly useful.

We had a gal on our staff who was trained on the CF program. She is now a financial aid officer. She went to that workshop in August and she runs a one-man shop. In a place like B.U. or B.C., the training is going to be internal. You bring a new person in and there is staff there to train them. So the institutions we are concerned about are the one-man shops where the new person comes in and nobody else knows anything about it. The College Board and the Aid Officers Association have run at least one seminar for new aid officers each year in the commonwealth. There is more data on this that perhaps people in this room have, or maybe we can get it from Bob Katz' office in Waltham. I

know there has been at least one. There have been encouraged recently these joint meetings with HEAC as far as the loan program is concerned. We probably have depended primarily on in-service training for aid officers. There is no question about it. And most people have learned most of what they have learned on-the-job, but they have access at least once a year to a 2-week seminar. In 2 weeks you can cover a lot, so that they then could proceed—and they are encouraged to call members of the State organization. Aid officers go out, and not only in this State but in other States, and they will work with new aid officers on the site, following up these seminars. Now, that isn't as formal as a program in education administration, but not all aid officers come through educational administration programs. They come from liberal arts programs and they can be just as good financial aid officers, regardless of their undergraduate major or formal training, I think. I just think that the criticism is not warranted.

You have pockets of bad guidance in high school. You have pockets of less able financial aid officers, but the vehicles are here. If new people will use it and come to these seminars and use the knowledge of people like the aid officers here have, they can learn. If the incentive isn't there, they are not going to learn. So that, I guess, has something to do with the kinds of people the colleges appoint to these jobs.

One other thing on distribution. We do two things in our modest way, with a minimal budget. We, for the second year this year, are printing a brochure which will be directly mailed to 40,000 high school seniors, under contract with the college board. We did it last fall. We did it this fall. It covers all financial aid programs, including HELP. Second, on all the computer denial letters we send out, and we would like to send out more letters as a cross reference to the Higher Education Assistance Corporation for all those whose needs are modest and higher, so that there is a cross-reference there. Obviosuly there are other things that can be done.

Senator BROOKE. Next we will hear from Ms. Lana Brennen and Madelyn Miller. Lana Brennen is the financial aid officer at the University of Massachusetts in Boston. Madelyn Miller is the financial aid officer at Boston College. They are here particularly to talk about the problems of minorities in regard to the Federal student loan program. We appreciate your taking your valuable time to be with us.

If this is your text, why don't we put this in the record—the text itself—and let me ask you some questions. Do both of you have a prepared text?

Ms. MILLER. No. You had asked me to come on this morning, but I do have an information sheet that BC submitted to all banks and students concerning the availability to banks and the kinds of things about which the students should be inquiring, and I would be more than happy to submit this to you.

Senator BROOKE. All right. Now, Ms. Brennen, you have been scheduled as a witness. Why don't you proceed first? Could you capsulize your statement and the whole will be put in the record, or does that put you at a disadvantage?

Ms. BRENNEN. It does put me at a disadvantage.

Senator BROOKE. Well, can you give it in 5 minutes?

Ms. BRENNEN. I will try.

Senator BROOKE. Thank you. That will be appreciated.

STATEMENTS OF:

LANA W. BRENNEN, DIRECTOR OF FINANCIAL AID, UNIVERSITY OF MASSACHUSETTS AT BOSTON

MADELYN MILLER, FINANCIAL AID OFFICER, BOSTON COLLEGE, BOSTON, MASS.

BANK LOAN POLICIES: EFFECTS OF LOAN PROGRAM ON DISADVANTAGED

Ms. BRENNEN. I was requested to speak to you today regarding the effects of the guaranteed student loan program and the national direct student loan program on disadvantaged students. Included in my remarks will be a discussion of, 1, the effects of the three campus-based programs on the disadvantaged, 2, professionalism of the financial aid officer in the administration of these programs and, 3, the implications of future legislation.

First, I would like to say that at the University of Massachusetts at Boston we have numerous students, many of whom are disadvantaged, who rely heavily on the guaranteed student loan to help defray the cost of their living expenses. Accessibility to these loans has become increasingly difficult for our students. No doubt the default rate has made the banks in Massachusetts very wary of new applicants and almost totally unreceptive to freshmen applicants. Their policy of a 1- to 3-year established account has deterred many, many disadvantaged students from applying. It appears that banks in the Commonwealth of Massachusetts forget that the guaranteed student loan program was not established as a profitmaking venture, and until they can reconcile the original intent of the program with the actual administration, not only disadvantaged but all students' access to higher education will be limited and in most cases totally eliminated.

Inasmuch as a fruitful evaluation of the effects of the national direct student loan program or disadvantaged students cannot be adequately discussed without a comparable discussion of the other two campus-based programs, college work-study and the supplementary educational opportunity grant, I believe that it is incumbent upon me at this point in the proceedings to emphasize that although appropriations have already been approved by the Congress for student aid programs for fiscal 1977, congressional legislation for the continuation of these programs has yet to be devised.

Ironically, Congress has magnanimously appropriated moneys for fiscal 1977 for student aid programs—programs which are scheduled to end June 30, 1976. We are at present operating on a continuing resolution until June 1976 and have as yet to receive all of our operating manuals. The Higher Education Amendments of 1972 authorized the continuation of the three campus-based programs and the establishment of the basic educational opportunity grant program.

PROGRAM MANUALS

Significant changes were made in the administration of the three campus-based programs requiring new operational manuals for each of the programs. Since 1972 we have been continually told that the

55-139 O - 76 - 9

manuals would be forthcoming. Aid officers have been expected to operate these programs as outlined by Congress and detailed by the Office of Education. Congress is forever questioning the professionalism of the financial aid officers. How can financial aid officers develop and maintain their professional standards in the administration of student aid programs without knowing the rules of the game?

Nonetheless, we have been expected to interpret laws and make decisions on the basis of periodic announcements from the Federal Register. We have just received offical regulations from the Office of Education for the administration of the supplementary educational opportunity grant program with college work-study and the national direct student loan regulations still pending.

These programs end June 30, 1976. In this instance, whose professionalism should be questioned? Under the circumstances, most aid officers have done an outstanding job, even with the ever-present threat of incarceration for abuse of Federal funds. If this type of cart-before-the-horse method of administration is allowed to continue, the responsibility for the effective administration and distribution of all Federal student assistance programs cannot be the financial aid officers' alone. We, the Congress, and the aid community, have two options available to us; 1, concentrate heavily on developing legislation and it subsequent regulations to reflect current and future economic trends, relevant to the disadvantaged student and the middle-income student. Or, 2, call for another continuing resolution, thereby prolonging the already existing anxieties and vulnerability of the financial aid community, not to mention the possible damaging effects on the student aid population.

MINORITY ACCESS TO HIGHER EDUCATION

The three campus-based programs have been of major importance in minority access to higher education. They have been significant primarily because of the need-based criteria presently inherent in each program. There have been strong rumblings in Washington, particularly from Congressman O'Hara's House Subcommittee on Education, that the need-based criteria of the three campus-based programs have been extremely prejudicious to the middle-income student. However, his solution to the problem, that aid be distributed on the basis of merit, would terribly endanger the already precarious position of equal access to higher education within the disadvantaged community.

Moreover, Congressman O'Hara's investigations into the feasibility of distributing student aid on the basis of academic merit and his subsequent recommendations in House Bill 3471, smack of a total disregard and insensitivity to the needs and aspirations of the disadvantaged student.

Realizing, of course, that the middle-income student is quickly joining the ranks of the indigent as far as the acquisition of a postsecondary education is concerned, it seems that now more than ever, strong and determined efforts should be made to maintain some semblance of equal access to higher education.

SPANISH-SPEAKING FACULTY

Senator BROOKE. Ms. Brennan, I am going to ask you to stop there. Your entire statement will be included in the record. I do want to ask you, last year, I believe there were some problems at the University of Massachusetts with respect to not having any Spanish-speaking individuals on the faculty. Do you recall that?

Ms. BRENNEN. On the Boston campus or the Amherst campus?

Senator BROOKE. Amherst campus.

Ms. BRENNEN. I am not familiar with the Amherst campus; I am from the Boston campus.

Senator BROOKE. You don't know whether that has been rectified or not?

Ms. BRENNAN. No, I do not.

STUDENT LOAN REQUESTS TURNED DOWN

Senator BROOKE. Have you seen many young people turned away from this program because of lack of money? Has that come to your attention frequently?

Ms. BRENNEN. From the guaranteed student loan program?

Senator BROOKE. Yes.

Ms. BRENNEN. Yes. The Boston campus has a very large independent student population. Our average age is about 22 or 23. Being freshmen students, they have severe difficulty obtaining loans from the banks, because the banks look at them being a freshman and not an older student.

Senator BROOKE. You are in Boston. Do you have a list of the Boston banks or the area banks that are giving student loans?

Ms. BRENNEN. No, we do not.

Senator BROOKE. Have you tried to obtain such a list?

Ms. BRENNEN. On occasion, we have tried.

Senator BROOKE. Where have you tried to get it?

Ms. BRENNEN. From the Massachusetts Higher Education Loan Corporation.

Senator BROOKE. You have requested it officially of them?

Ms. BRENNEN. Yes.

Senator BROOKE. And you have not received it?

Ms. BRENNEN. No.

Senator BROOKE. So how do you know what banks are actually making these loans in the Boston area?

Ms. BRENNEN. From the students who have already received loans.

Senator BROOKE. That is the only way you know?

Ms. BRENNEN. Yes.

Senator BROOKE. What sort of training did you have for this job?

Ms. BRENNEN. I participated in the Institute of Financial Aid Administration sponsored by the College Entrance Examination Board in 1972 and I had a lot of on-the-job training at Simmons College.

Senator BROOKE. What is your background? What is your educational background?

Ms. BRENNEN. B.A. from University of Massachusetts, Boston, and a masters in education from Harvard.

MINORITY STUDENTS SEEKING LOANS

Senator BROOKE. Do you have any statistical data as to minorities receiving guaranteed loans at the Boston campus of the University of Massachusetts?

Ms. BRENNEN. No, none written down. I am not going to say we have a large number; I am not going to say we have a small number. We do have minority students receiving higher education loans.

Senator BROOKE. Do you know that they have run into any difficulty in obtaining student loans, different from those of other students?

Ms. BRENNEN. Well, traditionally at the Boston campus, we have had a small number of students participating in the higher education loan program. Just this past year, we have had a tremendous increase.

Senator BROOKE. Prior to this year, you had a small number. Why?

Ms. BRENNEN. Because of registration at the campus and the lack of knowledge of the availability of this type of money to students. They didn't realize that these types of funds were available to them through the banks.

Senator BROOKE. Do you know about the BEOG program yourself?

Ms. BRENNEN. Yes, I do.

Senator BROOKE. What sort of information is disseminated to students relative to both the BEOG program and the guaranteed student loan?

Ms. BRENNEN. The Boston campus has a financial aid brochure which they include with each application.

Senator BROOKE. And it has all of the opportunities available to students?

Ms. BRENNEN. All opportunities, yes.

Senator BROOKE. Are you the only financial aid officer at the Boston campus?

Ms. BRENNEN. No, I am not. There are two other professionals.

Senator BROOKE. And you all work full time on this?

Ms. BRENNEN. Yes.

Senator BROOKE. You don't process applications. Do you help with applications?

Ms. BRENNEN. Yes, I process—I have. I am involved in every detail of it, and we have to be because we have around 4,000 applicants, and for this year to date, we have 1,760.

LOAN REPAYMENTS

Senator BROOKE. What do you do so far as the repayment of the loans? Do you talk with them about repayment?

Ms. BRENNEN. No, we don't get involved in that kind of counseling because mainly I think that is the function of the bank to talk about that, because that is between the bank and the student. We don't get involved in it. We tell the student that this option is available to him.

Senator BROOKE. But they do understand it is a loan and that they would have a contract or obligation to repay that loan?

Ms. BRENNEN. Yes, they definitely understand that. Most of our students do understand that it is a loan, that interest is required, that they have to pay it back upon graduation.

Senator BROOKE. Do you make known to them the terms of the loan, the interest that they have to pay, the repayment period, and the payments that they will have to make?

Ms. BRENNEN. Yes.

Senator BROOKE. Do you get into their financial and their family's financial condition prior to making a recommendation to them?

Ms. BRENNEN. A lot of times we do have to get involved in that, because we have to recommend whether or not—particularly when students request over $2,500 or the family income is over $15,000.

Senator BROOKE. How long have you been in this job?

Ms. BRENNEN. I have been in financial aid for 6 years.

Senator BROOKE. Do you counsel students not to take out a loan—applicants?

Ms. BRENNEN. Well, I have encouraged students to take out loans because of the cost of the institution.

Senator BROOKE. Yes, but depending upon their condition, their financial condition, their ability to pay, their ability to assume such a burden—do you get into it that deeply?

Ms. BRENNEN. On occasion I have, Senator, and I have told students that if this is what they really want to do, and the only option to them is to take this loan, it is repayable after graduation. A lot of students are concerned that if they take the loan they have to pay it back immediately, or while they are in school. I emphasize the fact that they don't have to worry about this debt until after they graduate.

BEOG PROGRAM

Senator BROOKE. What about the BEOG program? Have you done much counseling as far as that is concerned?

Ms. BRENNEN. We have done a tremendous business in BEOG. We insist that every student who applies for financial aid also apply for a basic opportunity grant if they qualify, and if they don't to send in the application to make sure.

Senator BROOKE. You have a combination of both for some students?

Ms. BRENNEN. Yes.

STUDENT LOAN STATUS AT BOSTON COLLEGE

Senator BROOKE. Now, Ms. Miller, you are at Boston College. Did you know this young man that testified this morning—Mr. Friedman?

Ms. MILLER. Yes; I do. He is a student of mine.

Senator BROOKE. A student—do you teach as well?

Ms. MILLER. No. When I say "student of mine," he is a student in Boston College and I am his financial aid adviser.

Senator BROOKE. Are you the only financial aid officer there at Boston College?

Ms. MILLER. No; I am not. I am an assistant director in financial aid. There are five other financial aid officers aside from myself. There is a director and four other assistants.

Senator BROOKE. How many applications do you have a year?

Ms. MILLER. Well, in the freshman class alone we had for the HELP loan program this year—we had 400. I am the coordinator for the bank

loan program and it exceeded well over 400 students. That was for both undergraduate and graduate.

Senator BROOKE. Were you present here this morning when Mr. Friedman testified?

Ms. MILLER. Yes; I was.

Senator BROOKE. You heard his testimony relative to residency?

Ms. MILLER. Yes; I did.

Senator BROOKE. Did you give him any counseling on this particular matter?

Ms. MILLER. Yes; I did. Mr. Friedman came to my office and he told me his situation. I had had some history on his past applications as far as applying to the New York higher education loan program and their reasons for turning him down. I had to investigate and go further. I had even spoken to one of the officers in that program long distance, but this year he came to me and I told him he would have to take out a savings account, because I couldn't help him last year at all. This year he had his savings account, he lived in Massachusetts and he applied, and I was very surprised when the banks turned him down.

DISCRIMINATION TOWARD MINORITY STUDENTS

One of the questions you may have wanted to have asked me was, is there any discrimination to minority students? There need not be any discrimination. The bank has enough policy to turn the student away. They don't need to discriminate. The Federal Government sends out regulations for us to go by. The bank makes up their own internal policy as to the eligibility, as to whether or not a student can apply for a bank loan. Therefore the student has the policy of the bank—not only does he have to be familiar with that—but he also has to have a needs test, which will determine his eligibility for the loan, if in fact he is asking for more than $2,000 and his income is less than $15,000.

Thank God for the list. I am so glad that we have a list coming to us. We have for years and years been asking for the list. BC was able through research to get their own list, and we were only able to get this list by the students applying for the bank loans. We got a list of banks and we have been distributing this list to the various students as they come into our office and apply for bank loans. As far as cooperation and sort of working together between the financial aid officer at the educational institution and the lending institution, we have tried that many times. The banks have an attitude, as you already know, you have heard some of them, and it isn't that we haven't tried. We have tried. And also, my reasons for trying is that we submitted an information sheet to all students that were applying for bank loans and we sent them to every bank that we had, and the main purpose for a list is so that the schools can have some kind of cross communication as to the status of the student and as to what is going on in the educational institution for students applying for a bank loan. We need this list. I have sent this to every bank that I was knowledgeable of and I only heard from one bank.

BANK REQUIREMENTS FOR STUDENT LOANS

Senator BROOKE. The banks are, of course, concerned about the academic standing of a student. The banks are also concerned about

previous repayment practices or repayment record, for example. Did you look into Mr. Friedman's record?

Ms. MILLER. Yes, I did, and I counseled him concerning his past record, and of course when a student is in need, and you are talking about an educational loan, and he told me that he had a family, that he had to have a HELP loan. I told him the avenues which he could apply for to see if he could be helped. When he was turned down, like I said before, I was very surprised. But then after my investigating it further—yes; I have spoken with Mr. Holst and he has been a very good friend of mine as far as helping me with students, and somehow since the contact of Massachusetts higher education, the student is now being granted the loan. I don't know whether the student is aware of this or not; but all of a sudden the picture has been turned over.

Senator BROOKE. Do you do a thorough job, or are you able to do a thorough job—don't you pretty much have to take the student's word for it as to whether he has defaulted on other payments, say back in some other city or some other place?

Ms. MILLER. Right. I have to take the word of the student.

Senator BROOKE. Academic records you can see. Often times I guess you could go to one of the credit organizations to check it out, but you don't go that far, do you?

Ms. MILLER. No. We don't go that far.

Senator BROOKE. A bank would, of course.

Ms. MILLER. A bank would. That is the attitude of the bank, right. One of the things that we have tried to do as far as correspondence with banks is to get a new loan form. There is a subcommittee, an ad hoc committee, that investigated the loan form because the State of Connecticut and New York has one sheet that they use in filling out, which would make it much easier to the applicant to follow, and so far that is just in the process of being submitted and the whole bit.

ELIMINATING PROBLEMS AMONG STUDENTS IN ACQUIRING LOANS

Senator BROOKE. Cutting back on the red tape that students have to go through?

Ms. MILLER. Right. And we just couldn't understand why—you know—just like we couldn't understand why we couldn't get a list. Maybe next year——

Senator BROOKE. Mr. Cosgrove, is anything being done in this field, to cut back on the red tape, I mean?

Mr. HOLST. We have a one-page draft.

Senator BROOKE. So there is a possibility that we might be moving in this direction, so it won't be insurmountable for a student making out an application.

Thank you very much. Thank you, Ms. Miller and Ms. Brennen.

CONCLUDING REMARKS OF SENATOR BROOKE

I am not going to conclude the hearing. I am going to have the counsel for the subcommittee conduct the hearing, with the assistance of the minority counsel and his assistant, Mr. Ruscio. We have two other panels and I want to personally apologize for my inability to stay for their testimony, but I want to assure them that I, together with my colleagues, certainly intend to read this testimony. We are very much in-

terested in it. We just have to close up the loopholes and make this program work. We believe in the program. With all due respect to Dr. Silber, I just don't feel that at this time, with the limited resources we have in the Federal Government, that we are realistically going to move entirely to a grant program. So I think we are going to have to live with this loan program at least for the foreseeable future, and since we are going to have to live with it, we are going to have to make it work as effectively as we can. With all due respect to the students, and we are here to serve them, we have to also recognize that the banks do have a problem. It is a tight money market. They have their other commitments. They are in the business to make a profit. We understand that. But I do hope—let me make just one plea for not only communication, but cooperation between these financial aid officers, certainly with HELP, and State agencies with HEW and certainly with the lending institutions. This State could really be a model for the rest of the country. I am not sure that it isn't already, so far as some of the others are concerned, with the low default that we can put into it. But this is what we are going to have to live with.

I can give you the feel of the Congress, it's even worse in the House than it is in the Senate, as we fight for money to come into this program; and the President now is talking about a cutback of $28 billion. I am sure you are aware of the tax cut the President has recommended, and a corresponding $28 billion cutback in Federal spending. It is going to have to come from somewhere and I don't think education is going to be immune from some of these cuts. So we've got some very serious problems to consider and I ask for your full cooperation.

I am going to have to move on. I expected that we would be through at 4 o'clock. I am going to have to stop at 4:15. I have to get a plane back to Washington because of further committee consideration of the New York bailout question. You have been very helpful and I appreciate it. I am going to submit to you some questions and ask you to submit the answers for the record. I will also do this with others. We have had so many excellent witnesses and we have gotten into lengthy discussions. I will, however, read all of the testimony.

Thank you all for your cooperation.

Financial Aid

STATEMENTS OF:

JUDITH ALLEN, DIRECTOR OF FINANCIAL AID, REGIS COLLEGE, WESTON, MASS.

LYNN E. SANTNER, FINANCIAL AID OFFICER, UNIVERSITY OF MASSACHUSETTS, AMHERST, MASS.

STUDENT CASE HISTORIES

Mr. Dirks [presiding]. The next panel is a financial aid officers panel. Judith Allen, Regis College; Lynn Santner, University of Massachusetts, Amherst—and that will be followed by a bankers panel.

Judith, would you proceed.

Ms. Allen. Thank you. I would like to cite the cases of two Massachusetts students in their pursuit of higher education guaranteed in-

sured loans to further their education. I believe that their experience will clearly identify several of the problems we are encountering with the student loan program in this State. Although neither of the students is in attendance at my institution, the financial aid directors involved have assured me that the information presented here is accurate.

In the first instance, the student, a high school senior in 1974–75, began looking for a $2,000 higher education loan plan in April 1975, immediately after she received her acceptance to a 4-year private college in this State. The family's adjusted gross income was under $15,000, which meant that she was eligible for a subsidized loan. The first bank the student visited was the one at which her parents had an account. She was told that the bank did not lend to freshmen. The second bank she visited was the one at which her parents held their home mortgage. Despite the fact that it was only April, the student was told that the funds had already been committed for the following year.

The third bank she visited was the one where her parents had previously had their car loan. Because they did not have an account presently, however, she was refused a loan.

The fourth bank was one where neither the student nor her parents had any present or previous business and, consequently, she was told she was not eligible for a loan.

At this point the student called the financial aid director at the institution that had accepted her. The director told her to call the Higher Education Assistance Corporation in Boston. The person the student talked to said that the corporation could not dictate to the banks and suggested she keep trying.

The student then called the financial aid director a second time who, after making several calls to banks himself, found one that would lend her $1,500. She visited this bank, her fifth, and did receive the $1,500. As she had a demonstrated financial need and required $2,000 in assistance, the college lent her the additional $500 from their national direct student loan funds.

I would like to say here that in my own institution when I have had occasion to call the Higher Education Assistance Corporation. I have always had complete cooperation and success from Mr. Holst. The problem is that not every student at every institution, particularly at a large one, is capable of getting back to the financial aid officer, understanding the procedure that he or she must go directly to the Boston office and talk specifically to Mr. Holst. But in my situation he has been cooperative and successful.

In the second instance, the student was seeking a $2,000 loan to enter a private graduate school. She visited the suburban bank where she and her husband had their checking account. Again, the adjusted income was under $15,000. The bank said they did not lend to graduate students. When the student asked who received preference in the program, she was told that undergraduates whose parents had personal or business accounts of $15,000 or more received preference.

I believe that these two cases illustrate several of the problems students are encountering with this program.

BANK REQUIREMENTS FOR LOAN APPLICANTS

First, the student applicant cannot telephone the banks; she must visit each one personally. Although we do not expect the bank to give a loan without talking with the applicant, we do believe a student should be able to make an initial inquiry by telephone. She should be able to call and find out, one, if a particular bank participates in the program, two, if there are funds still available, three, if there are any restrictions on the borrower, and four, the best time to visit the bank to make application for a loan.

Second, many banks lend only to their own customers, which oftentimes excludes the most needy students.

Third, some banks are excluding freshmen and graduate students from the program.

Fourth, most banks in this State are restricting their loans to $1,500 which means that many students in the private sector are having to seek additional assistance to meet their college expenses, which average a minimum of $4,000 a year.

Although the Massachusetts higher education loan program assists thousands of students annually, for which we are most grateful, I hope that we can improve the program so that every deserving student can obtain a loan.

Thank you.

Mr. DIRKS. Thank you, Ms. Allen. Mr. Santner, would you like to present your statement now and then we will have some questions for both of you.

PROBLEMS OF TRANSFER STUDENTS

Mr. SANTNER. In the interest of time I will just get to a couple of problem areas that I have cited in my statement.

As a State university, we accept large numbers of transfer students from our community colleges and other institutions each year. Many of these students come to us with prior NDSL and/or guaranteed loan obligations. Many of our graduate students have borrowed from previous institutions attended and prior guaranteed loan programs in their original State of residence.

Students are geographically mobile. Guaranteed bank loans tend to have geographic limits. We are therefore faced with the dilemma of having to become the third lender to many needy students if these students are to be able to finish their education.

Although the national direct student loan program provides for some flexibility in arranging repayment, that flexibility coupled with the usually more personalized loan collection procedures of colleges assumes that if students can only make partial payments, it is usually the bank and not the institution that will be repaid.

LOAN CONSOLIDATION PROGRAM

We would recommend that Congress give some thought to establishing a loan consolidation program within the Office of Education or some other appropriate agency, possibly Sallie Mae. The consolidation agency, once it accepted a borrower's note, would have the ability to defer payments without penalties, extend repayment periods, and make whatever arrangements are necessary to assure the maximum proba-

bility of repayment and to avoid forcing a punitive and unnecessary default.

Students could petition the agency to accept their loans for consolidation if repayment exceeded a stated percentage of income or if some other special circumstances make repayment impossible. Lenders who were having problems with collections from multiple borrowers could likewise petition the agency to call all notes for consolidation.

LACK OF AVAILABLE LENDING SOURCES

Another problem of growing concern to us within the State is one that we probably share with other large schools located in areas geographically removed from large urban areas, and they have touched on this, I think, in previous testimony. This is the lack of available lending sources for students who want or need to borrow through the federally subsidized loan program. Bona fide independent students and married couples who, temporarily at least, have not established a permanent home of record, frequently are caught in this bind. This problem is extended again by the lack of a published list of participating lending institutions within the State, and the absence of general policy regarding the bases for approving or denying loan applications.

I might add, as Judy did, that we have had nothing but good relationships with Mr. Holst and in making verbal requests of him when we have a problem with a student being able to obtain a loan.

Possibly if Federal incentive money were made available to encourage the development of regional or State lending institutions, we would then be able to provide another reasonable alternative for this particular group of students.

Such a procedure, particularly if accompanied by an exemption of educational loans from bankruptcy procedures for a reasonable period of time, would, we believe, do much to alleviate the present loan collection problems in this country.

The bankruptcy problem at our university has not yet reached a critical proportion, but we are beginning to see a marked increase.

FINANCIAL OBLIGATION OF STUDENTS

Mr. DIRKS. Thank you. Several times today it has come to the attention of the committee that students getting loans are not fully aware of the financial obligation they are taking on. Do you, as financial aid officers, make a special effort to inform the loan applicants—do you contribute to their understanding of their obligation? What would you say to a student, for instance, about making him aware of his obligations to repay the loan?

Ms. ALLEN. At my institution I give an information sheet and I have a brief interview at some time in the application process, but I must say that I find the student much less informed regarding the whole procedure from the bank's point of view than from the financial aid officer's. I personally think the lack is very much with the bank and less with the financial aid officer.

Mr. DIRKS. Do you think the financial aid officer has any responsibility to guide a student away from a loan that he might believe might place a burden on either himself or his family?

Ms. ALLEN. Yes, I personally do and I have had occasion to do so, although I do not feel that a financial aid officer should do any more than advise. I think it is up to the individual student borrower to make the final decision, because very often we do not know whether the student or the student's parents are going to be repaying. But I do think we have an obligation to discuss total indebtedness, the kind of repayment schedule, and to make sure the student understands that obligation and what it does entail.

Mr. DIRKS. But you also feel that the major responsibility lies with the lending institution?

Ms. ALLEN. Yes, I do, in terms of explaining the whole procedure. I have students sending in forms and they are not aware of when they will have to submit a financial statement. They are not aware that the bank can overrule the financial aid officer. They don't know how long it is going to take. They haven't had any kind of a lengthy interview with a banker, and I feel that that is unfortunate.

EXCESSIVE REDTAPE AND PAPERWORK

Mr. DIRKS. We are in a period of time now where we are being asked to cut Federal support, the number of students, cutting back on personnel and job opportunities. We talk from time to time about cutting back on paperwork also. Do you find yourselves bogged down with a lot of redtape, forms, excessive paperwork? Is there a point where you cannot do your job properly or give each student the best possible aid package because of the voluminous amount of redtape and paperwork?

Ms. ALLEN. No question about it.

Mr. DIRKS. Is most of that the result of Federal requirements?

Ms. ALLEN. To a large extent, I would say so. Certainly in the bank loan program. I was very much encouraged to hear Mr. Holst say that we are going to a one page application, which many of us have worked with from Connecticut, and find that much easier. Invariably, a student will pick up one or two forms, or we have an education certificate required in this State and most other States do not, and they won't even get this perhaps in the first processing and they will be delayed because the bank will have to send that later. I am not sure—I think there are a total of 8 or 12 forms included in this program from start to finish, and I can see where consolidation would be extremely helpful.

LOAN COLLECTION PROCEDURES

Mr. DIRKS. Senator Brooke brought up the question of the collection of loans, and obviously for many students the financial aid officer is the principal contact or the principal channel of communication they have with other school personnel. Do your superiors encourage followup with students? Have you developed any particularly successful approaches to the students?

Mr. SANTNER. We follow up as best we can. We are working with a staff of actually six full-time financial aid counselors for a student body of about 25,000 students. So it does tend to get thin at times, but we try to follow up as much as possible, on all students who have loans and whatnot.

Like every other institution, I think, we do ask the question on the application of other loan obligations and we try to follow this up, with as much personal contact as possible, to consolidate that and get the point across to the student as to what kind of obligations they are taking upon themselves. Beyond the point of the initial contact, the followup, unfortunately—we just don't have the time for it in a lot of cases, which we should have.

Mr. DIRKS. It is primarily a matter of time and personnel, then—the number of slots you have and the time you have to devote to them?

Mr. SANTNER. Right.

Mr. DIRKS. You did indicate, I think, earlier, that you have a good working relationship with the Higher Education Assistance Corporation, HELP, and I think that came out in earlier testimony today, too.

I don't have any further questions at this time. Gar, do you have any questions?

ROLE OF FINANCIAL AID OFFICER

Mr. KAGANOWICH. I have just a couple of questions. I am not sure that your role as financial aid officer has been put in perspective. Am I not right that what you really are, in a sense, are facilitators, sources of information, rather than people who connect up with loans or make loans or anything like that?

Mr. SANTNER. I view it as a combination. I view my duties as the person to sit there and try to piece together from what I have written on paper or having talked with the student, what programs are best in terms of the family situation, in terms of the student's present situation. Is this the type of student that should be eligible for the BEOG program? Make it known to him or her, if they haven't applied for it. Is it a supplemental grant case? Is it a person that we really shouldn't talk grant to, but we should really say maybe they should borrow money. I view my original duty as "how much can we help?"—and if we can't help, if there is no possible source of Federal, State, or campus aid to be of help, then I am a facilitator to make sure that this person knows what other avenues that he or she can take.

Ms. ALLEN. In terms of the Federal programs, we actually are administrating those. However, it is our responsibility to give the aid to each individual student, to determine the very best package, and to make sure that we are following all the Federal regulations.

Mr. KAGANOWICH. So in that sense you are directly involved in the lending of funds.

Mr. ALLEN. Yes.

BACKGROUND REQUIREMENTS FOR FINANCIAL AID OFFICER

Mr. KAGANOWICH. What special background do you bring to this work?

Ms. ALLEN. I think a little bit of insanity, quite frankly. I think the backgrounds of financial aid officers vary tremendously and one of the things invariably people are criticizing us—I think there are some unfair comments. I think for one thing, perhaps you are aware that in the Chronicle of Higher Education last year, we moved from being the lowest-paid administrators in the college campus to right up above the book store managers. Now we are next to the bottom.

That is certainly one consideration. It is a relatively new field, as I am sure you know. The National Defense in 1958 really brought the whole thing into effect and people are just now beginning to realize its potential and importance. But the backgrounds of financial aid officers vary tremendously. You have people who have been with counseling. I have worked with people who have been bankers and accountants, and I think that the background is less important than a person's motivation, concern for the student, concern for the well being, the interest in higher education and a very strong concern in meeting the Federal regulations.

Mr. KAGANOWICH. You are in favor of getting an up-to-date list of banks that are eligible lenders under the Federal student loan program?

Ms. ALLEN. I was absolutely delighted to hear that that will be forthcoming.

PROCEDURE SERVING VA STUDENTS

Mr. KAGANOWICH. The Veterans' Administration operates offices throughout the country. Do you direct students who also are veterans to them, or do you get involved as you would with any other student?

Ms. ALLEN. I am with all women, so I don't get into that.

Mr. SANTNER. We have a separate veterans office which is a part of—at least on paper, it is not physically located with us—but it is a part of the financial aid function. If we get an application on a student or know of a student that appears to be eligible for veterans' benefits in any way, shape or form, we immediately make the referral to our veterans' office.

Mr. KAGANOWICH. Have you run into any special problems with the VA program?

Mr. SANTNER. I think mechanical more than anything else. These are to be expected.

Mr. KAGANOWICH. Those are the only questions I had.

ACTIVITIES OF HIGH SCHOOL GUIDANCE COUNSELORS

Mr. DIRKS. Do you work just with students as they come from high school?

Mr. SANTNER. Yes.

Mr. DIRKS. The guidance counselors at the high school level also become involved with students just as they leave the high school program. Would you have any advice that you would give for guidance counselors or people who work with graduating students from high school?

Ms. ALLEN. I would urge them to attend as many of the workshops that are made available to them, either through our State association or through basic grant, and to read all the literature they possibly can, because we find—I think it is a combination of problems with guidance officers that our incoming freshmen are less likely to have received basic grants than our upper-classmen, they are less likely to have received State scholarships than our upper-classmen, and it is because they have not been fully informed, and I can only conclude that that is because the guidance counselors themselves are not fully informed I know their schedules are a real problem and there is a proliferation

of literature, but I would hope they would take advantage of seminars and workshops. They are being given. It is just a matter of their making the time and the effort and attending them and reading the literature.

Mr. DIRKS. A better job, then, at the high school level would be beneficial both to yourselves and especially the students?

Ms. ALLEN. Very definitely, yes.

EXCESS PAPERWORK

Mr. RUSCIO. I have a couple of questions. First, you mentioned the excess paperwork that financial aid officers have to do. I notice that Frank is still here from the morning panel. I wonder if you folks couldn't get together, or add your own thoughts individually, and send to the committee some of your suggestions. Identify some of the useless forms, some of the forms that could be consolidated. To my knowledge, no one has ever sent that to our committee. We were never made aware of that. I don't know if the authorizing committees, the ones who set up the education programs, have anything like that. I think it would be useful if you could provide that for our files.

Ms. ALLEN. We would be very pleased to do that.

Mr. RUSCIO. Do all of the financial aid officers belong to the National Association of Student Financial Aid Administrators?

Ms. ALLEN. They are all strongly encouraged to belong.

LOAN CEILING

Mr. RUSCIO. Last year the Senate Committee on Labor and Public Welfare held hearings on some of the very issues we are discussing today. One of the suggestions that NASFAA came up with was a $2,500 ceiling on loans for students, all Federal programs. I don't know if they were speaking for everyone in the organization. Do you have any comments on that?

Ms. ALLEN. I would doubt that they would be speaking for everybody. One of the problems I think you will find with financial aid officers is if you put 12 of us around the table you would get 12 different opinions. It is depending upon the types of institutions we deal with. Just off of the top of my head, I would not want to see a ceiling on loans, partly because at a 2-year public institution they might require less debt than a 4-year public, than a 4-year private, to say nothing of graduate school on top of that, and we do not know whether the students themselves or the parents are repaying. So it is conceivable that out of a $7,500 debt, the parents are indeed paying $5,000 of that. I would be sorry to see an arbitrary ceiling.

Mr. SANTNER. I agree with that statement.

STATUS OF BASIC GRANTS PROGRAM

Mr. RUSCIO. The last thing, something we have touched upon today, and it is a very serious accusation, dealing with the BEOG program. Everyone seems to feel that one of the reasons the basic grant program is not working is because it is not campus based and the financial aid officers never wanted to see it work, never wanted to promote basic

grants. That is why we are not reaching the students. That is why there is a surplus every year.

Ms. ALLEN. How long do I have to respond to that?

Mr. RUSCIO. Have you heard that?

Mr. DIRKS. That's a true or false question.

Ms. ALLEN. That's a, "How long have you been beating your wife?" type thing. It simply isn't true. I am amazed. We are accused of a variety of outlandish things, but that has got to be one of the worst. There are some very good reasons why the basic grant program has not worked, and they are not really involved so much with Financial Aid Officers. The first year it was very late in coming, as you know. It is an entirely different needs analysis system, so that it is complicated for students. "What do you mean, I'm eligible for college work-study under this needs analysis system, and I have to go and fill out duplicate forms on a whole other needs analysis, and you're telling me that I am not eligible for basic grants, so why does the Federal Government say OK in one program and not in another?" That is hard to explain to a student. They wonder why they have to fill out separate forms anyway. Sometimes they are not informed at the high school level. We pick them up as upperclassmen. Many financial aid officers, myself included, are now requiring a basic grant application before any other assistance is given, but the Office of Education, as I understand it, was very much off in their projections of amount of money. The needs analysis test has gradually eased a bit, but it was incredibly difficult.

Mr. RUSCIO. They are probably doing this as a result of all the difficulty they are having themselves.

Ms. ALLEN. I can understand that.

Mr. RUSCIO. I think an example of this—HEW is asking Congress now for authority to pay a bounty—to pay financial aid officers $2 for every student they enroll in the BEOG program.

Mr. DIRKS. So much a head—a minimal amount.

Ms. ALLEN. I believe NASFAA figured out that it costs something like $30 per student to process a student eligibility report, and they suggested that the Office of Education and the institution split that. I think it is $20 or $30, and they came up with this tremendous compromise of $2 per student enrolled.

Mr. RUSCIO. Do you think that would make a difference?

Ms. ALLEN. Frankly, I think that the financial aid officers are doing the very best they can and I don't think it matters—by and large, if my institution is any indication, any administrative expense that I bring in doesn't benefit me in any way. It goes simply to the institution.

Mr. DIRKS. At $2 a student head, then, you wouldn't really put out any different effort or any stronger effort to involve a student in the BEOG program?

Ms. ALLEN. No, but at $30 I wouldn't either, because at my institution I require every student to apply.

Mr. DIRKS. Thank you both very much.

Next we will hear from a panel of witnesses in the banking field. As Senator Brooke pointed out this morning, the banker is a key figure in the student loan process. He must find the resources to

make loans and then get the borrowers to pay them back. With one in four loans in a default status around the country, this becomes a formidable problem. Our panel consists of Mary Falvey, assistant vice president of the Springfield Institution for Savings in Springfield; Leonard O'Conner, manager of consumer finance, First National Bank of Boston; and Edward Piana, vice President of Norfolk County Trust Co. in Dedham. Mr. Piana is not presently here.

Miss Falvey, would you like to start?

BANKING FIELD PANEL

STATEMENTS OF:

MARY FALVEY, ASSISTANT VICE PRESIDENT, SPRINGFIELD INSTITUTION FOR SAVINGS, SPRINGFIELD, MASS.

LEONARD O'CONNER, CONSUMER FINANCE, FIRST NATIONAL BANK OF BOSTON

BANK LOAN LIMITATIONS—DISTRIBUTION OF LOANS

Ms. FALVEY. In the interest of time I will waive my statement and just bring up a few points that have come up that are in the statement. I think one of the most important ones is that the loans at the SIS are not limited to bank customers. We do, however, limit them to residents of the greater Springfield area. We have also tried to limit the amounts, tried to keep them to $1,000 a year for undergraduates, and $1,500 a year for graduate students. We have been doing credit counseling for many years. We counsel our students when they come in. A debt of $4,000 at the end of their undergraduate work, and if they go on to graduate work—$7,500 to $8,000, sometimes $9,000, is an awful debt to place on a young man or woman today going out into the world, especially at the rate of their lack of getting jobs, and incomes sufficient to pay their expenses.

While 95 percent of our loans are in a 7 percent plus subsidy category, the bonus rate is ranged anywhere from three-quarters of a percent in 1972 up to the maximum of 3 percent in 1974, but then dropped to one and a half percent for the period ending June 30 of this year.

We didn't have any knowledge of what the subsidy would be until a little while ago—somebody said it would be one and a quarter—for the period ending September 30. A higher rate of return would encourage many lenders to review their policies and maybe give second thoughts to assisting young men and women needing financial assistance.

With the establishment of more feasible guidelines, expedited payment of claims and a higher rate of return, I think the higher education program could be one of the most important challenges and opportunities lenders face in educating the younger population in good credit habits in this era of consumerism.

Mr. DIRKS. Thank you very much. Mr. O'Conner?

Mr. O'CONNER. I, too, would like to waive reading my remarks and address myself to some of the points raised here.

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AVAILABILITY OF LOANS TO STUDENTS

I didn't attend the morning session, but one of the basic questions that seems to have been raised here is availability, and the problems students have. Several of the things I will talk about are interrelated, obviously. The point was raised by one of the earlier witnesses concerning the rate. As I am sure the committee is aware, banks are not charitable institutions. We are a profit oriented group, and taking the fact that participation in the student loan program is voluntary, and also taking into consideration the dollar volume Mr. Holst alluded to, $35 million I believe was the figure provided from the banks, the key to availability on our side seems to be the whole question of the allowable rate. As Mary noted, the special allowances vary. It is computed for an arrears period. We cannot plan, other than what our investment people tell us might happen to general interest rates, and if they say general interest rates will go down in the next two quarters we can probably assume that the allowance will go down.

We would suggest one of two things, as far as the rate. One would be to boost that special allowance, 4, 5, some percentage. I would submit that last summer, from late spring into the fall, we were loaning money to our so-called prime borrowers at a prime rate of 12 percent, and loaning money to students at a maximum of 10 percent. The programs are not profitable.

The second suggestion with regard to the rate involved in the student loan program might be that each market area within the country be allowed to set their own rate, within certain guidelines, of course. I have no doubt but what this would make funds available. Every area of the country functions under different cost structures. Salaries are different throughout the country, different areas, heating costs, the whole overhead costs vary from area to area, and I would submit that perhaps a regionalization of some sort regarding the maximum allowable rate might be in order.

I mentioned that the loans are not profitable. Our current accounting gives us about a 3-percent administrative cost for all loans. That leaves us anywhere from 7 percent down to work with, and typically the cost of funds—and this is a big measure—internal cost of funds varies from institution to institution. The loans are not profitable. There is no way that we have figured out to make them profitable. The forms requirement—and I might add that I wholeheartedly endorse the simplification of forms—are burdensome. The time delays involved, mailing back and forth, student, educational institution, back and forth, require a filing system to keep track of what is going on, what is where, what is happening to each individual piece of paper.

SALLIE MAE

The next point I would like to address is Sallie Mae. I agree with Mr. Cosgrove that the program has been a success in this area. However, I disagree with him on the use of Sallie Mae. We are more than willing to provide our share of the market in educational loans. However, we would like the option at some point, of limiting our total

dollar investment, and if you will, revolving our investment in the student loan portfolio, and citing an example, if we did have the ability to sell our state loans to Sallie Mae we would expand our availability for that period probably to that amount, and operate the entire program on a revolving basis, making the loans available to students, yet at the same time limiting our dollar investment. We are not asking that the loans even be profitable. We would appreciate a breakeven position.

Mr. KAGANOWICH. Can I ask you a question at this point? If you were allowed to peddle your paper to Sallie Mae, would you use the proceeds for additional student loans?

Mr. O'CONNER. Yes. Our basic philosophy in the area of student loans—we are the largest banking institution in New England, and we have a responsibility to provide those loans to students.

Mr. DIRKS. How would you feel about a requirement in that respect?

Mr. O'CONNER. I tend to agree with Senator Brooke that we have enough regulations and requirements in a whole bunch of areas, and if I weren't here this afternoon I would be wrestling fair credit billing.

Mr. KAGANOWICH. But there seems to be a contention here that if Sallie Mae were allowed into Massachusetts, to buy loan paper that the banks might not put the additional money into the loans.

Mr. O'CONNER. I can't say—there may be banks, of course, that would sell to Sallie Mae and never make student loans. Our position is that we have an obligation to make these loans.

Mr. KAGANOWICH. What obligates you?

Mr. O'CONNER. Our civic responsibility, if you will. Mr. Cosgrove alluded to bankers being stupid if they made unprofitable loans. Our bank and many other banks participate in civic programs at a great dollar cost to the institution, and we feel that the education program is one of these. We do—and this was addressed earlier by the Senator—specifically, out of locale lending—our bank by State law is limited to Suffolk County as a base of operations, and therefore we do limit our student loans to Suffolk County residents.

USE OF SALLIE MAE IN OTHER STATES

Mr. DIRKS. Have you had a chance to look at other States that have been using the Sallie Mae program to see if the allegation of the charges that you may not replace these funds with student loan accounts are true? Are other States following this pattern?

Mr. O'CONNER. I haven't had the opportunity to see anything. I know several larger banks on the west coast have participated heavily, selling loans to Sallie Mae. I know it has been recent.

Mr. DIRKS. I assume the Office of Education might have that information for both of us.

Mr. O'CONNER. Possibly. As I said, we would look—with that ability, we would look at our student loan as a revolving situation, and I can't tell you what a dollar figure might be, but perhaps we would set a limit that we wanted to hold ourselves to. If given the ability to sell to Sallie Mae, we would replace those funds.

Mr. KAGANOWICH. Would you increase the limit, then? If you were able to sell to Sallie Mae and had more funds, would you then raise the limit?

Mr. O'CONNER. The thing I feel—we are the largest institution in the area and we have more branches than anyone else, and we often get the feeling we are doing more than our fair share. We, as I said, do limit our loans to residents of Suffolk County, which is a pretty large population base, and given the fact that other banks and I won't accuse anyone, can restrict their programs more severely, if you want to look at it that way—I have heard the allegation from customers—but be that as it may, they are restricted in some bases, and I don't feel that we should support all of Suffolk County, but we are willing to do our share in the marketplace, and I think we have been doing it. I would submit that with the availability of Sallie Mae we could potentially increase our participation in the student loan program.

Mr. KAGANOWICH. Do you feel the same way, Ms. Falvey?

Ms. FALVEY. I feel the same way. We have never actually set a dollar limit on our loans. We have had promotions for them. We have never restricted them to eliminate freshmen or to eliminate anybody that was not a customer of our bank. A few years ago we had a promotion during Education Month, full page ads, pledging all our deposits during the month up to $1 million to the education loan program. Every employee of the bank had an S.I.S. help loan button that they wore, to feed the information to the customers asking what the button was for.

We have encouraged them. We have tried to counsel them. We have tried to cut down on paperwork, too. We have limited them because of the amount and that is all.

RESTRICTIONS UNDER SALLIE MAE FOR USING ADDITIONAL FUNDS

Mr. KAGANOWICH. Are there any rules or restrictions under Sallie Mae which would make it difficult for you to make loans with the additional funds that would be available?

Ms. FALVEY. Not their regulations. It is just on the average that we have for our locality. We have averaged approximately 500,000. In 1972 we put 702,000 on the books. Normally it runs between 500,000 to 600,000. We were hampered last year when the new regulations came in for the $1,500 maximum. Many families didn't want to go through the means test. We do give them a pamphlet in the beginning; not a pamphlet, just a sheet, telling them what the requirements are.

Mr. O'CONNER. I would second that; we have not limited our total dollar amount in HELP loans. I would say that we do restrict the number of incoming new loans to freshmen to a certain figure each year. Beyond that, once the student has gotten the initial loan, they can have their four or five loans or whatever.

I know one of the contentions against the use of Sallie Mae, in addition to the opinion that institutions would go out of the business entirely, I follow that with the fact that there has been no requirement to be in it in the first place. If you didn't want to make them any more, you don't have to make them. You just sit and not make them and depending on what you have you are out of the program and have no more loans in x period of time.

The second objection I have heard previously has been the objection to the use of a service company to process and collect, and the fact that a service company is remote and is centralized, it is dealing with large numbers of students from different institutions and different locales. I would submit that given—I forget the specific number, 400-some-odd lenders within the State, that you have 400-some-odd policies, procedures, within the framework of the regulations and different understandings of what should happen. I would submit that one centralized servicing organization who are experts in education loans and the processing of education loans would at least make for a uniform effort and from that point, easier enforcement of any violations. You have 1 source instead of 400 some odd to deal with, and police, and instruct, and notify, and whatever else has to be done.

DISSEMINATION OF BANK INFORMATION ON LOANS

Mr. DIRKS. A previous witness, Judith Allen, suggested that the students should be able to call the banks for initial information about loans. What is your reaction to this, and why would the banks not do this anyway? Why wouldn't it be appropriate to call the banks?

Ms. FALVEY. I don't know about you, Leonard, but I couldn't understand that. Our phones are out straight with them all the time. We do take calls. In fact, we don't go along with all of the policy suggestions. We leave it up to the student to follow through. We give them a kit with all the papers. We don't send the papers directly to the schools themselves. To expedite matters, we just give them everything. They can call. We will mail the papers out. We mark it right down whether we have mailed them or not.

Mr. DIRKS. If I were a freshman, would it be appropriate to call the bank to get some initial information, to make an initial inquiry about a student loan?

Mr. O'CONNER. No problem with the initial inquiry. Because of the specialized nature and the complicated forms, essentially, we do process our student loans at two of our branches and, typically, the student is free to call any of our branches, get the basic information as to what is required and what is entailed and then be directed. We do prefer to interview them, if possible, and they will be directed to the appropriate office closest to their home or whatever to be interviewed, to go through the forms and what is required in the completion of the forms. We do a lot of business by mail.

STUDENT LOAN PORTFOLIO PERCENTAGE

Mr. DIRKS. What percentage of your loan portfolio would be for student loans? What would be the average loan portfolio of a major bank in Massachusetts?

Ms. FALVEY. As mentioned in my statement, it is 34 percent of our loan portfolio—in student loans.

Mr. O'CONNER. We have our own direct student loan program. In fact, we have a couple of them, outside of the guaranteed student loan. I would guess it would be 10 percent of our portfolio.

Mr. DIRKS. Could you give us some idea how you might decide on the volume?

Mr. O'CONNER. As I have earlier commented, we have never restricted it, and it is where it is.

Mr. DIRKS. Who decides this percentage? What kind of a criteria might you use for deciding?

Ms. FALVEY. Originally, I don't think we put any criteria there on the amount we would put out under the student loans. Originally it was going to be $500,000, when we first got into the program in 1962. Then we increased it up to $2 million, $3 million, and because of the payouts, we never quite reached the $3 million mark, so we haven't had our board review it.

BANK REQUIREMENTS ON BORROWERS

Mr. DIRKS. Do either of you, as representatives of your banks, have a policy with respect to whether students or their parents must have bank deposits, savings accounts, or checking accounts at your banks?

Ms. FALVEY. As I stated before, they do not have to be a customer of the bank. We do ask them when they come in if they have accounts with us, but we have never really kept track of whether they do or not.

Mr. DIRKS. That is not a requirement nor a policy of the bank not to negotiate a loan with someone that was not a customer of the bank?

Ms. FALVEY. No. In fact, in our area, if they go to another bank first, and they do not have an account, they know that the SIS will take care of them. They send them over and the student will say they have been to *x* bank and they referred them to us.

Mr. DIRKS. You evidently have a reason, then, for asking them whether they have an account or not. There must be a reason for that kind of a question to come forth, and I think it would be good to have the reason on the record.

Ms. FALVEY. So that we would know—in other words, when we pledged *x* number of dollars, we got to that amount, but we never reached that amount so we never actually used the information, even though we put it down. We don't ask them for an account number. We just ask them if they have an account.

Mr. DIRKS. Do you agree with that response?

Mr. O'CONNER. I agree with it. Our philosophy on the student loans is to serve our market area, and residents of Suffolk County are accepted basically on a first-come, first-served basis on new students entering, freshmen, and sophmores looking for assistance. For residents other than Suffolk County residents, we have asked if the person were a customer of the bank, not a deposit customer—maybe a loan customer. It hasn't been held as a strict requirement for getting the loan if you were outside the county. We have received many calls from Mr. Holst for people from just about anywhere and I would think we have serviced within our dollar amount.

Mr. HOLST. I contend that neither of these two banks are the biggest banks in the program but they are both large in the program and are both excellent, and I completely accept all that they have said. I would like to make sure that Len understands, as you understand, that when Mr. Cosgrove was saying bankers must be fools or something to that effect, that he was meaning that in reverse. They wouldn't be lending $35 million unless they thought it was a good thing to do.

RELATIONSHIP OF BANKS WITH HELP AND HEW REGIONAL OFFICES

Mr. DIRKS. I think I understood Mr. Cosgrove correctly. Along that line—and this is a two-pronged question—have you had any problems in dealing with the HELP or the HEW Regional Office?

Mr. O'CONNER. None at all. I guess the basic contention might be some delay in claim payments, but nothing major. I think we have a pretty good relationship with both offices.

Mr. HOLST. From our side, I believe we have an excellent relationship with these two banks.

BANK REFUSAL OF APPLICATIONS TO STUDENTS

Mr. KAGANOWICH. Have you ever refused an application for a loan to a student who came into your bank? Just the application itself?

Ms. FALVEY. To give him the application?

Mr. KAGANOWICH. Yes. If a student comes into your bank and says, "I would like an application to take out a loan," are there ever any instances where you would turn him down, in terms of that applicant.

Ms. FALVEY. We have had some turned down, but it was after the papers were completed.

Mr. KAGANOWICH. But you do give him the piece of paper, the application itself?

Ms. FALVEY. Right. We give them a little kit with all the papers and the instructions.

Mr. KAGANOWICH. There is an application form in there?

Ms. FALVEY. Yes; the application and all the instructions.

Mr. KAGANOWICH. Mr. O'Conner?

Mr. O'CONNER I would have to say, yes, we have, after an interview, if the student did not meet the requirements of the program. I don't know, maybe I'm the one who miscomprehends the program, but the delivery of an application form to us is tantamount to making the loan. There was some talk of checking prior repayment records on certain borrowers. The typical student has none.

Ms. FALVEY. Well, the typical young student doesn't. I think our rejects are more in the older students, those that have been out working, with established credit, when we have turned them down.

Mr. KAGANOWICH. I see, after you have done your check?

Ms. FALVEY. Yes. Normally a young student will not have any credit or acquired any credit experience at all—but the older students, we have turned them down. We have turned down many, because they are the veterans, from full-time jobs, getting an average of $300 a month additional, driving around in 1975 Cadillacs that are not paid for, and are 5 or 6 months behind in their payments. We have turned down some of our own mortgage customers. But this is only after the application is back to the bank.

Mr. KAGANOWICH. That is what I was driving at, there is no policy of refusing an applicant, a student in this case as that is what we are dealing with—there is no policy of refusing the student the application form itself?

Ms. FALVEY. Unless they are way out of our lending area. Sometimes we will. In other words, we will have somebody come in, say

somebody going to Springfield College that is a resident of another State. We are not able to help them. We have many we do recommend that if they are from New York State to contact a bank in that area. That would be about the only thing.

Mr. KAGANOWICH. And in the instance of your bank, you at least give them an interview first?

Mr. O'CONNER. Certainly.

Mr. KAGANOWICH. It is not an arbitrary action—that is what I am driving at?

Mr. O'CONNER. No, it is not. It is not, "no, you can't have one." There is either on the phone or in the branch itself, an interview conducted to determine eligibility requirements generally, and either direction to the specific branch to handle it—the applications are only in two particular branches in our system—so consequently they are either mailed or the student has to go in to one of those two branches to get one.

STUDENT LOAN DEMANDS MET

Mr. KAGANOWICH. I believe it was testified earlier in the hearing that the demand is being met or is being substantially met. Would you agree with that—in terms of student loans?

Mr. O'CONNER. I would have to agree. In my end of the operation I cannot recall—and 2 years ago I was directly involved. I was the one to call for exceptions on the policy for student loans, and I cannot remember saying no to anyone. I am sure anyone can sit down and recite a horror story—that somebody went to 18 banks and got turned down. But the typical student going to a bank in the program in his marketplace, I would have to say generally get serviced. If not at the first one they go to, maybe the second or third. I think if the student is permitted to go on to higher education, and obviously most of them are, there is some effort to be expended. My personal opinion in the area of defaults is most of the guaranteed student loans are looked upon as grants, regardless of the initial explanation.

Mr. KAGANOWICH. And you would also feel that the demand is being met, at least from your perspective?

Ms. FALVEY. Yes.

FEDERAL INTEREST SUBSIDY

Mr. KAGANOWICH. The Federal interest subsidy has sort of been looked upon as an inducement for the student to get assistance. How much help is it to him really?

Ms. FALVEY. I am not sure I understand your question.

Mr. O'CONNER. The fact that they will only pay 7 percent?

Mr. KAGANOWICH. Well, 7 percent—or the fact that they do pay, that there is an interest subsidy that is made available.

Ms. FALVEY. I don't think they worry about the subsidy. They worry more about the interest they have to repay, the 7 percent. In comparison to a car loan it is low.

Mr. KAGANOWICH. So it could work against the student in some instances.

Mr. HOLST. The subsidized loans will pay the interest currently and unsubsidized loans very likely, the interest would not be paid until much later.

Ms. FALVEY. Oh, yes. There were very few—that was on those that would not qualify and had to pay their own interest.

LEVEL MONTHLY PAYMENTS

Mr. RUSCIO. I have a couple of questions that have been brought up in the past and I would like to bounce them off of you. I know I am catching cold and if you would like to react in writing that would be fine. One of the suggestions that has been raised in the last few years is this idea of level monthly payments, that maybe it is inappropriate or unworkable. What do you think of the idea of maybe an optional payment or graduated payment scale?

Mr. O'CONNER. I would like to respond to that. I just spent an hour and a half on the phone yesterday with regard to some proposed legislation to establish a so-called Education Loan Corp., a semi-quasi-public education loan system in the State. I personally don't feel it will work. As I said, I was on the phone an hour and a half yesterday with Mr. Beroz after reading his proposal which is quite lengthy and detailed, and he spent an awful lot of time on it, I am sure. I think the program has enough flexibility right now as far as repayment terms, provided we don't load the student up with the maximum debt coming out of college, and getting married to someone who has a like debt and probably buying an automobile and buying a house and what-not. I think the terms are flexible enough to fit—and maybe the economic conditions could argue against it—but I don't think we have to look very far to see well-trained college graduates with no jobs in their chosen professions, and that is a problem. I hesitate to even comprehend the repayment terms that would be necessary. Arthur Beroz's proposal involved upon graduation, a distribution of so-called loan payment coupons to borrowers which would be returned on a monthly basis with the payments written in by the borrower, based on a chart that would be provided—if your income is such and such and you have so many dependents, you pay a monthly payment of x. It doesn't seem like a workable plan. I see 30-year loans, womb-to-tomb financing really, where the debt would never get extinguished. If you are going to gear the required payment to that individual's income, I see a lot of instances where, as I said, the debt never gets extinguished.

NOTIFICATION TO BANKS OF STUDENT ATTENDANCE

Mr. RUSCIO. Do you think the schools—and this is something that the American Bankers Association has suggested—that schools ought to be compelled to notify lenders when a student has dropped out or graduated, giving them an address or a phone number or something?

Ms. FALVEY. We have had great reception. When we write a loan and process it, we send a letter to the school stating that we have issued a check to the student and to the school, and in the event that they drop out if they would notify us. We have great reception to that.

Mr. HOLST. That is a standard part of our program, too, that the loan document impose the obligation on the student to keep the lender informed of his academic status and his address.

Mr. DIRKS. Does the school itself feel an obligation to respond back to the bank or do they do this as a courtesy?

Ms. FALVEY. I believe they have to report to the Office of Education. We get in all the reports from them. If we do not, if we do not pick it up for any reason, we will catch it by completing the forms because they will mark it that the schools says they are not there. This is where all the additional paperwork comes it. There is an awful lot of work checking back on every one of these loans, checking back, they say they dropped out of school. You contact the student. But we have had great reception, if they could notify us—but like they say, they don't know. That is why we feel that by making the check payable to the student and the school, they have it in their records, and then if they drop out we are notified. But unless the school is notified that the bank has made the loan, they have no knowledge of it and so couldn't report.

Mr. HOLST. Mary, a letter does go to the financial aid officer or registrar for every loan for every school for every student.

LOAN PAYOFF IN EVENT OF DEFAULT

Mr. RUSCIO. One last question. This has come up in the committee's hearings and during some debates in recent years. Hold on to your seats. It has been suggested that if once a default claim is made by a lender, instead of paying the bill in full, the Federal Government paid the lender in the same installments or rate that a student would pay. In other words, this might serve as an incentive to due diligence.

Ms. FALVEY. Well, we are getting our money back at the same rate we would if the student signed a renewal note. A little more bookkeeping, change of bookkeeping records, but if we are getting our money back——

Mr. O'CONNER. It would require a greater administrative cost on our part, I think. But theoretically we have obligated ourselves to a contract for x dollars a month for x years at that percentage rate and I guess my only objection would be whatever increased administrative costs there would be to follow that monthly payment financing.

GAO CRITICISM OF HEW RECORDKEEPING

Mr. RUSCIO. You mentioned financial procedures earlier. Last year the Government Accounting Office criticized HEW for: Lack of adequate accounting systems; problems with the automated system; improvements needed in estimated losses; and problems in estimating future losses. It became obvious that HEW wasn't that sophisticated in their system. They were making a lot of errors, simple errors, and I wonder if the lenders either here in the Commonwealth or anyplace else, to your knowledge, were ever asked to come in and give HEW a little advice on how to set up the system, perhaps a little feedback on some of the accounting systems that you folks have set up?

Ms. FALVEY. Well, no. Of course our only contact with HEW was sending the quarterly bill. All claims go directly to the State. Some-

times they are a little slow. Fortunately we have our own computers. We get our bill out right away. I guess their computers broke down. We didn't get the June quarterly bill until September, but that has been our only contact with them.

HEW/LENDER COOPERATION

Mr. RUSCIO. I was wondering if it might be helpful for HEW to seek the advice of the lenders?

Mr. O'CONNER. I think the point was raised before by Senator Brooke that this whole program should be a cooperative effort, and I think that might be well worth it. I don't know what we could offer. I am not, obviously, technically familiar with what HEW systems are, but we certainly have a wealth of systems-dedicated people in our bank and if such an opportunity presented itself I am sure we would be happy to participate.

Mr. RUSCIO. Well, Mr. Spiller from the Boston Five said this morning that to his knowledge no banks had ever been brought in since this program was started.

Ms. FALVEY. When the new changes went through a year and a half ago, I believe it was about 24 Washington attorneys that set up the new regulations, and that was the complaint then, that they didn't check with the banks or the lenders. He had a very good point.

Mr. RUSCIO. Thank you.

CONCLUDING REMARKS

Mr. DIRKS. Thank you both for your very frank and candid testimony.

This brings to a close today's hearings on the student loan programs. The subcommittee wishes to extend sincere thanks to all of you that could be here today. This is the first time in recent history that the subcommittee has held field hearings and we especially are thankful for the fact that we were able to come to Boston, Mass. I am sure that Senator Brooke is pleased that he could come today, too.

We intend to make a full report of the findings of the Senate hearing today as soon as possible. We will also have printed hearings of all of the testimony which has been taken today and they will be available to not only the members of the Committee on Appropriations in the Senate, but to all the other committees that deal with student loans and student financing, as well as available to all the Members of Congress and to the Federal, State, and local agencies, and of course, to the general public.

SUBCOMMITTEE RECESS

Again, thank you very much for being here. The subcommittee will stand in recess.

[Whereupon, at 5:30 p.m., Friday, October 17, the hearing was concluded, and the subcommittee was recessed, to reconvene at the call of the Chair.]

Material Submitted Subsequent to Hearing

[The following correspondence from Messrs. Holst, Cosgrove, and Delaney was received subsequent to the hearing and will be placed in the record at this point.]

[LETTER FROM HELGE HOLST AND JOSEPH F. COSGROVE]

MASSACHUSETTS HIGHER EDUCATION ASSISTANCE CORP.,
Boston, Mass., October 27, 1975.

HON. EDWARD W. BROOKE,
Old Senate Office Building,
Washington, D.C.

DEAR SENATOR BROOKE: As the testimony of Mr. Francis Delaney, Jr., Director of Financial Aid of the College of the Holy Cross, was not presented orally before the Senate Appropriations Committee hearings on October 17, 1975, it was only today that we had the opportunity to examine his written statement. We find so many errors in this presentation that we are obliged to correct the record.

Mr. Delaney implies that there is no rational discourse "amongst student aid officers, the banking community and the state agency charged with operation of the loan program." MHEAC holds regular training sessions with lenders and in 1973 had such meetings in Springfield on January 30, 1973, in Worcester on February 5, 1973, and in Boston on February 13, 1973 for the purpose of explaining the revisions of the loan program as enacted by the amendments of 1972. In addition we regularly provide written directives, train bank personnel in our office, and are in extensive daily contact with lenders in the active administration of the loan program. Similarly, at the request of the New England Regional Office of the U.S. Office of Education, we participated in three meetings held over the state for the instruction of Financial Aid Officers. We have also participated in several meetings of the Massachusetts Association of Financial Aid Administrators.

Mr. Delaney complains that students are at times turned away by banks to which they apply for HELP loans. In fact during the past five years the following numbers of loans and dollars have been lent and guaranteed under the HELP program:

	Number of loans	Value of loans
1970	20, 815	$20, 293, 039
1971	22, 024	23, 705, 885
1972	22, 151	25, 548, 113
1973	22, 649	29, 716, 864
1974	24, 968	35, 597, 041

During this time we are not aware of any significant number of students who did not obtain loans.

The growth of the HELP program is better testimony to its support by lenders and its utility to students than a generalized charge which implies the program is not a reliable or a viable source of student assistance to those who need it. Considering the status of the Commonwealth's finances, Massachusetts students are fortunate that they have not had to rely on state funds for their higher education loans.

Mr. Delaney charges that MHEAC has opposed the Student Loan Marketing Association warehousing and purchase programs. This is not correct. We have consistently favored the warehousing program by which lenders borrow from SLMA. Under this program funds obtained from SLMA must be recommitted to student loans and the original lender remains responsible for loan administration.

MHEAC has not favored the SLMA purchase program because funds obtained through it are not required to be reinvested in student loans. Additionally the original lender looses contact with the borrower and servicing of the loan would be taken over by an unassociated and to date remote servicer. In our opinion this would result in completely impersonal computerized administration and high default experience.

In its effort to simplify and streamline loan administration MHEAC has developed and is perfecting a single sheet loan application. It is expected that this will be in use by January 1, 1976.

Mr. Delaney requests a verifiable system for documenting loan applications which are rejected. MHEAC does document with written reasons any loan applications returned for failure to qualify.

Mr. Delaney states that a higher guarantee fee has been requested without sufficient justification or explanation of need. This is absolutely without foundation. Authority to increase the fee was requested by MHEAC of the U.S. Office of Education and MHEAC was required to provide data justifying its request. Notice of the proposed change with reason for the change was published in the Federal Register of May 13, 1975 with invitation for public comment. Such comment as was received favored the increase. No adverse comment was received.

Accordingly the Secretary of Education published a change in the applicable regulations in the Federal Register of August 14, 1975 which permits this increase. Several other states will also be increasing their required fee.

Mr. Delaney suggests a different composition of MHEAC Board of Directors. MHEAC's success in securing lender cooperation (346 lenders with 871 offices accessible to borrowers) and growth in numbers and values of loans, along with its favorable default ratio, must surely speak favorably for the Board and management. The Guaranteed Student Loan Program is a loan program not another grant mechanism. Moreover it is a voluntary program in which lenders are enlisted to participate and agree to do so in accordance with the terms of the program. This does require, however, such administrative and fiscal procedures as may be necessary to protect the U.S. from the risk of unreasonable loss, to insure proper and efficient administration, and to insure that due diligence will be exercised in the making, servicing and collecting of the loans. These requirements are necessarily more stringent than for a grant program.

As indicated in our testimony, we stand prepared to provide any information available to us which will enhance the HELP program originated by our organization which has continued to serve as a prototype in many respects.

Sincerely,

HELGE HOLST,
President.
JOSEPH F. COSGROVE,
Treasurer.

LETTER FROM FRANCIS H. DELANEY

MASFAA

MASSACHUSETTS ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS

24 November 1975

Dear Senator Brooke:

A copy of the letter to you from Mr. Helge Holst, President of the Massachusetts Higher Education Assistance Corporation and Mr. Joseph Cosgrove, Treasurer of MHEAC, was sent to me. I wish that I could say that useful dialogue had begun, but this was further than ever from realization. Mr. Holst and Mr. Cosgrove accused me of so many errors (in my presentation before your subcommittee on October 17th) that they are obliged to correct the record. I ask your tolerance while I take up their argument point by point.

1) I said that there was no communication among the three parties--the aid officers, the banking community, and MHEAC. Holst and Cosgrove described their communications with the bankers and with us. They ignore the point that they have always stood between us and the banking community, presuming to speak for them, doing absolutely nothing to bring us together, however. They may think they have communicated with us, but I can tell you that most of my colleagues in the councils of MASFAA would describe the experience as one way. Holst and Cosgrove have never given the slightest indication that they have listened to us or our needs for program improvement.

2) MASFAA for years has complained that the HELP loan program is what can be described as an unreliable source of loans in that the would-be borrowers must rely on banks which can choose whether or not to participate in the program, or when, or to what extent, and to whom they will lend. We have reported on the negative student experience and also on the gap in the necessary statewide availability of lenders. Holst and Cosgrove have always cited the volume and growth of their program as the answer. This is a good and encouraging answer which we in MASFAA have always appreciated, but it is an answer to another question. It is a non sequitur.

3) The gentlemen say that during the time of great growth in the HELP loan program they are not aware of any significant number of students who did not receive loans. There is a good answer for this. The banks are not in the habit of formalizing their rejection of a borrower, although many will sign a reject letter if a student asks them for it. There is no indication that such is ever communicated to MHEAC. Simply put, while Holst and Cosgrove will react positively one on one in a difficult situation to help a student receive a loan, they have shown no interest in a systematic solution to a problem which they refuse to acknowledge.

4) We have asked for a formal rejection process at the lender level. It is typical that Holst and Cosgrove would have you believe and understand that the subject is MHEAC rejection (subject already mentioned) but it is not. It is rejection at the lender level which we wish to document.

5) We charge MHEAC with refusing to authorize the banks to deal with the Student Loan Marketing Association. We have listened to Holst and Cosgrove explain their reasons for this stand, and we find their argument unrealistic and unconvincing. They describe a warm, tidy, family type loan program which is, in our experience, not necessarily the rule even when the student application is accepted, let alone when the would-be borrower is refused out of hand.

If it is the intent of the great and general court of Massachusetts and of the U.S. Congress to sustain this loan program for the benefit of the middle and uppermiddle income families, they have it in MHEAC as administered by Holst and Cosgrove. Access to this loan program is hardly available to ALL of the citizens.

6) We raised questions about the proposed increase in the guarantee fee. Holst and Cosgrove complain that we in effect ignored the notice of the increase published in the May 13th Federal Register. Sir, we have financial aid offices to run, students to see, and we do not regularly day by day read the Federal Register. Our friends and colleagues such as the American Council on Education, the College Entrance Examination Board, the National Association of Student Financial Aid Administrators, and others (even the U.S. Office of Education) alert financial aid officers to items of interest. It is symptomatic that no such alert came from Mass. Higher Ed. regarding this important regulations change. This is another example of the communications problem. What kind of an agency is it that communicates to the student aid community through the Federal Register?

7) Our position on the makeup of the MHEAC Board is clear. It is full of dead wood, and at best it may represent the original private subscribers to the initial and limited guarantee fund which has long since overwhelmingly been augmented by fees charged to borrowers. At

worst, it is in effect an Executive Committee of which Holst and Cosgrove plus two others constitute a working majority. The Board does not govern MHEAC.

MASFAA believes the Board should be reconstructed. Its base should be broadened so as to represent lenders, borrowers, educational institutions, and their aid officers. It should include women and minorities. There is simply no reason why intelligent administrative people should object to such a Board which broadly represents those people whose needs are served by the program which the Board should govern. We hope, therefore, that the present Board will take adequate remedial action with your support regarding the position of the two executives and the Board structure and composition.

Lastly, all aid officers are grateful to the banking community for the loans made and the borrowers serviced under the HELP loan program. We have appreciated as well past favors from Mr. Holst and Mr. Cosgrove who have secured individual loans for students when we have called upon the HELP loan office for this kind of personalized and individual assistance. We feel that a modernized and realistically conceived MHEAC would seldom need a personal intervention of busy and responsible men at the level of the president and treasurer of the Corporation.

Thank you for your time and understanding in this important matter. If I can be of any additional assistance to you, do not hesitate to call upon me.

Sincerely yours,

Francis H. Delaney, Jr.
President